Bank Change and the Community Reinvestment Act

Five Boston-Area Case Studies

Massachusetts Urban Reinvestment Advisory Group

A publication of the Metropolitan Area Planning Council

ABOUT THIS REPORT

This publication was financed through a local-initiatives grant from the Metropolitan Area Planning Council (MAPC) and a matching grant from the Boston Neighborhood Network to the Massachusetts Urban Reinvestment Advisory Group (MURAG).

MAPC is the officially designated regional-planning agency for 101 cities and towns in the greater-Boston area. It is made up of representatives from each community (usually a designee of the chief elected official) and from state and Boston agencies, and several appointees of the governor. The Council's staff helps member communities plan for solving problems in housing, economic development, transportation, land use, and environmental protection.

The Boston Neighborhood Network is an independent non-profit organization that links community groups, public agencies, and universities to aid neighborhood-development efforts.

MURAG is a statewide non-profit organization that encourages private participation in the housing and economic development of Massachusetts cities and towns.

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BACKGROUND

This set of case studies was written to acquaint the reader with the Community-Reinvestment Act (CRA). The legislation, enacted by Congress in 1977, requires bank regulators "to encourage. . . institutions to help meet the credit needs of the local communities in which they are chartered." The reason CRA was enacted was "redlining," the refusal to lend based on geographical location, which became a national issue in the early 1970s. Residents in older neighborhoods were denied credit not because they were poor risks or because of the condition of their property, but because of its location. Consumer groups lobbied first for legislation that required financial institutions to disclose the location of their home-mortgage loans and were successful in 1975, when the federal Home Mortgage Disclosure Act (HMDA) was passed. Disclosure confirmed consumers' suspicions that their deposits at local banks were indeed used to fund suburban development while their neighborhoods suffered. Unfortunately, knowledge of such lending patterns did not alter the situation. Through additional consumer lobbying, Congress enacted in 1977 a reminder of banks' responsibility to their local communities, upon which their charters, or licenses to operate, rested--the CRA.

Passage of the CRA naturally required financial institutions to look closely at their surrounding areas. Each institution must now delineate its "CRA community," i.e., the territory where it claims responsibility for meeting local credit needs. Once a bank designates this community, its regulatory agency examines the delineation to ascertain that low- and moderate-income areas are not excluded from a logical definition of this community. CRA also requires banks to post in their lobbies (or other conspicuous place) a notice which informs the public about the CRA legislation and encourages community evaluation of the bank's performance. Consumers may publicly assess the bank's performance through use of the "Public-Comment File" at the bank.

However, while CRA emphasizes the affirmative obligations that lenders have to their communities, it is vague legislation. The law does not require banks to make specific types of loans or allocate credit in fixed ratio to deposits, and it leaves the evaluation of performance to the regulators. But in spite of its limitations, the law does call officially for consumer opinion, and that evaluation is fully considered whenever a bank wants to expand.

Within Massachusetts, where many banks have state rather than federal charters, Banking Commissioner Gerald Mulligan issued a series of directives early in 1979. These directives instructed state-chartered institutions to make mortgage information public and extended the requirements of CRA to state-chartered institutions.

MURAG (the Massachusetts Urban-Reinvestment Advisory Group), the successor to the Jamaica Plain Banking and Mortgage Committee, an anti-redlining group, has sought to protect consumer interests by analyzing banks,records on CRA requirements throughout the Commonwealth. The following case studies show how different constituencies have benefited from CRA. The details show that achieving compliance with CRA often requires struggle, but one that brings real improvements to local communities.

THE PROVIDENT

The Bank

The Provident Institution for Savings in the Town of Boston (The Provident) is the largest savings bank in the state, with assets over $1.026 billion. It has 11 offices, 10 in Boston and one in Saugus.

The Decision

On January 2, 1980, the Massachusetts Board of Bank Incorporation (BBI) denied permission to the Provident Institution for Savings to open a branch in the affluent suburb of Newton on the basis of the bank's failure to meet the credit needs of its local community. The decision, based on the federal CRA, which the state banking commission had adopted as regulations in February 1979, was the first CRA-based denial of a bank's expansion plans by a state regulator in the country, and was only the second CRA-related denial by any regulator. This decision established CRA as a meaningful tool for community development and reinvestment in Massachusetts. More than the passage of the law itself or the state's CRA directive, the decision made Massachusetts banks aware of the importance and strength of CRA. It both stopped a profitable venture for the Provident and served as a warning to other banks.

Circumstances

In late October 1979, MURAG received notice from the State Banking Commission that the Provident had applied to open a branch in Newton Corner. Although MURAG had negotiated with and pressured other banks to increase urban lending and end discriminatory policies, it had not brought a formal challenge under CRA.

MURAG and its predecessor, the Jamaica Plain Banking and Mortgage Committee, had been monitoring bank-investment records for seven years; and the Provident was known to be a bank with little concern for urban neighborhoods. As a savings bank, Provident had a traditional obligation to provide residential mortgages, an obligation it had ignored in Boston.

At the time, the Provident was also the largest savings bank in the state, so MURAG believed that a successful CRA challenge of a bank this size would have an important impact on the behavior of other banks. Finally, the Provident had been denied approval of the same application two years earlier, in 1978, by outgoing-banking commissioner Carol Greenwald. Her decision stated, "As a large, strong mutual institution, Bank [Provident] is in a position to do a great deal to serve the credit needs of its entire community, but its record is not impressive." She cited the bank's lack of lending in low- and moderate-income neighborhoods and its use, instead, of government-insured loans exclusively in those areas. Indeed, Home Mortgage Disclosure Act (HMDA) data showed that the bank had concentrated its housing-related loans almost exclusively in upper-income neighborhoods.

The importance of a CRA denial was not underestimated by MURAG. For most of the 1970s, community groups across the country had fought bank red-lining, trying to convince bankers that they were responsible for the results of their investment policies--badly deteriorating neighborhoods. While the passage of HMDA and CRA were important victories for community activists, the legislation's usefulness had not been proved.

HMDA data, available since 1975, were informative and interesting but largely ineffective in changing bank lending practices. Although community groups could publicize a bank's record, there was no way for the community or the regulator to force the bank to change. CRA showed the way. However, the vague CRA language has been interpreted in difficult ways. Regulatory response to a bank's failure to meet community needs may be insufficient to improve performance. Many activists felt that CRA exams and challenges would end with a bank's being only rebuked for a poor record.

Congress, although it passed CRA in late 1977, gave banks a year before the legislation took effect. Regulations written by the pertinent federal agencies were weak and made the act less forceful. According to them, the purpose of the legislation was to encourage, not require, banks to meet local needs. "As long as the institution makes a good-faith effort. . . the Examiner must be careful not to unduly burden the institution. . .," instructs the Federal Home Loan Bank Board (FHLBB) Examiner's Manual. MURAG was skeptical about the possibility of real changes.

MURAG's final concern was that state regulators would not implement a state version of CRA. However, Commissioner Gerald Mulligan's directive to state banks, in February 1979, not only extended CRA to state-chartered banks but also signaled the King administration's determination to require banks to take CRA seriously.

The Board of Bank Incorporation (BBI) procedural rules stipulate that a public hearing be held on all applications to open branches. Community organizations, bankers, and interested members of the public are invited to give supporting or opposing testimony.

Although Greenwald had denied the application once, her decision came while she was a lame-duck commissioner and was not specifically based on a CRA challenge. Given a new state administration and the one-year grace period the Provident had for improving its record, no one assumed that a second denial was imminent.

Process

Following the notice of the application, MURAG began an official CRA challenge. The strategy had four parts: research of the bank's past obligations and performance; HMDA analysis; political and community pressure; and media attention.

The Provident had made three applications to open branches (in Dorchester, Brighton, and Newton) in the previous four years. Information concerning these was the basis of MURAG's examination of the bank's performance.

The main source was Commissioner Greenwald's denial of the Newton branch. In her decision, Greenwald specifically criticized the bank for its low mortgage-loan-to-asset ratio of 50 percent; the bank's low return of deposit dollars to

urban neighborhoods in the form of mortgages; and the bank's use of government-insured mortgage programs. She found the bank used Federal Housing Administration and Veterans' Administration (FHA-VA) loans as the sole form of mortgages in certain inner-city neighborhoods. She also criticized the bank for the lack of low- and moderate-income representatives on the Board of Trustees. However, her most damning charge was that the bank simply was not interested in making mortgages in the city, and that those few it did make were concentrated in upper-income neighborhoods.

MURAG's review of these criticisms showed that not only had the Provident not improved its record, it had reduced its lending. Overall lending within Boston had decreased, with 273 loans made in fiscal year 1978-1979 compared with 337 granted in the previous fiscal year. The loan-to-asset ratio was still relatively low, and the composition of the board of trustees remained unrepresentative of the community. The only area where significant change had occurred was in the government-insured mortgage activity: it fell from 23 percent of the total lending in Boston in 1977-1978 to four percent. Greenwald had objected to the substitution of government programs for conventional lending; the bank responded by cutting back on both.

In its applications for the Dorchester and Brighton branches, the Provident claimed that it needed them to serve its customers in those neighborhoods better. MURAG found that the bank's volume of mortgage lending in those neighborhoods had decreased substantially since the applications were approved. So Provident's argument that it wanted the Newton branch so it could improve services to its customers in that city was hardly credible.

MURAG's look at the Provident's 1978-1979 HMDA data showed that there was no improvement in the distribution of lending. The Provident had almost completely ignored the needs of such low- and moderate-income neighborhoods as Dorchester, Jamaica Plain, Roxbury, Mission Hill, East Boston, and South Boston. The bank made conventional home mortgages in only three of 22 census tracts in Roxbury and Mission Hill. No mortgages were given in 17 of 24 census tracts in Dorchester (North). Only three mortgages were made in South Boston, and none in East Boston. Back Bay and Beacon Hill areas were where 36 percent of all Boston mortgages were written.

And these were figures from the bank supposed to be the largest lender in the city.

Although regulators like Carol Greenwald could and did deny applications based on poor records of meeting community needs, CRA was necessary to provide a legitimate process for public review. MURAG mobilized the community groups and politicians who were upset with the lack of investment in cities by local banks, particularly the Provident. Community organizations, especially those in development, were well-aware of the Provident's record. In letters to new Commissioner Mulligan and in testimony before the BBI, these organizations repeated their criticisms. The United South End/Lower Roxbury Development Corporation wrote, "The Provident has not developed and implemented any type of affirmative lending policy since the denial of its application, a year ago." Low-Income Planning Aid wrote:

> Seemingly the Provident. . .has done very little to address this situation and now wants to turn its back on the city while expanding services to the suburbs. We urge you, in the interests of maintaining responsible banking practices in this city, to send a message . . .that banks must seriously and aggressively pursue their community obligations in order to earn the benefits of licensed financial businesses in this Commonwealth.

In its Annual Bank Report, 1978, the Allston-Brighton Community Beautification Council wrote, "We feel that the Provident is sorely lacking in any community commitment with the exception of investing our money in other communities."

By providing a forum with community input before the decision, CRA made the issue political. Capitalizing on this, MURAG invited comment from local officials. Commissioner Mulligan received letters concerning Provident from Senators Kennedy and Tsongas, Lt. Gov. O'Neill, Congressman Donnelly, state Senators Timilty and Brennan, Rep. Walsh, and City Councilor DiCara. Their letters discussed their concerns about the Provident and also mentioned the importance of CRA and the role regulatory agencies must play in making the law meaningful.

Given the new law and the support of a large number of community organizations and politicians, there was wide and largely favorable coverage. Such trade publications as Banker and Tradesman, American Banker, and New England Business Magazine gave thorough and balanced coverage to the hearing and the issue. MURAG's explaining the significance of CRA and this particular case to journalists and assignment editors paid off in visible news stories and sympathetic editorials.

On November 13, 1979, the BBI held the hearing. The Provident argued that it had met its CRA obligations, citing its sponsorship of a speakers' bureau that included appearances before professional, civic, and school groups; sponsorship of two publications and a girls' Little League team; Christmas decorations in Brighton and "best-wishes" ads for B'nai B'rith. No mention of credit needs.

MURAG responded with its research based on the previous applications and HMDA data. As Boston Globe columnist Kirk Scharfenberg wrote following the hearing, "MURAG came prepared for a rough-and-tumble scrimmage over the question of the bank's meeting neighborhood needs; the Provident, it seemed, came prepared for tiddlywinks. . . . MURAG's testimony this week was detailed and damning. . . . The Provident cited its sponsorship of Christmas decorations in Brighton and a girls' little-league softball team. . . . In the view of the bank, that was grounds enough for a spokesman to proclaim solemnly; 'What we do for the community we do because the Provident is committed to the community.'"

The Provident responded to charges that it failed to meet local credit needs in supplemental testimony filed after the November 13 hearing. The additional brief outlined the bank's plans to improve its lending in the future, to hire a community-affairs director, and to restructure the bank's management. While part of the additional statement was a rehash of the November 13 hearing, the bank management also used it as an occasion to introduce into consideration the appointment of a new chief executive officer, Garth Marston.

> The Provident Institution for Savings welcomes the opportunity to respond to the issues raised. . . .The opportunity is a timely one because it has enabled the new leadership of the Provident. . . to review and assess the Bank's record with regard to its support of CRA. . . .It provides the Bank's new management with the opportunity. . . to consider changes in policies and procedures in areas where the Bank feels it could do more to support the spirit and substance of CRA.

On January 2, 1980, Commissioner Mulligan announced his decision: the branch application was denied. In an eight-page press release, he concluded that "the public convenience and advantage would not be promoted." Mulligan's decision pointed out that "Applicant's present loan application policies have a chilling effect upon all potential mortgagors, especially the low and moderate income. . . .In addition to restrictive policies, Applicant's actual record of meeting credit needs is unimpressive throughout its entire community, and not only in low- and moderate-income areas."

While Mulligan noted the supplemental brief outlining the reorganization, he did not consider it enough to justify approval. He urged the bank to follow through on its plans and reapply "after Applicant accomplishes its commitment" and shows "a change in lending patterns, policies and programs sufficient to justify approval of a future application."

<u>Effects</u>

Mulligan's decision was the first CRA denial of a bank application by a state regulator in the country; only the Federal Deposit Insurance Corporation (FDIC) had turned down a bank before the Provident decision. While the decision had immediate effects on the Provident, of course, the most important effect was on the banking community. First, it was told that CRA and community responsiveness was a serious matter, both to the public and to regulators. Second, banks no longer could conduct expansion business in obscurity. Finally, the role of community protest was legitimized.

Media reaction was extremely positive. The <u>Boston Globe</u>, perhaps expecting approval by an appointee of pro-business governor Ed King, wrote:

> State Banking Commissioner Gerald T. Mulligan has sent a loud and clear signal to every state-chartered bank in the commonwealth that he intends to treat seriously their obligations to make credit available in low- and-moderate neighborhoods within the constraints of sound financial management. The residents of urban neighborhoods can only applaud. . . . What was particularly notable about the decision was that it . . . [was based] . . . upon an aggressive research effort made by Mulligan's own staff. Overnight, he has moved to prominence among state banking regulators in the application of community-investment standards.

While Greenwald's denial had meant the same thing for the bank, her decision was not unexpected. By using CRA, MURAG and the other community protestants forced the issue into the open. The Provident lost this one publicly, which hadn't happened with the previous denial. Many other Massachusetts banks had closely followed the proceedings in anticipation of their own expansion applications and possible challenges. The denial based on CRA performance served notice that

CRA assessment would be as important as safety and soundness in charter considerations. Mulligan's decision changed the focus of the issue from whether community credit needs were a bank's concern to what in fact constituted adequate CRA compliance.

NEW ENGLAND MERCHANTS

The Bank

New England Merchants National Bank, founded in 1831, was the third-largest commercial bank in Massachusetts as of December 31, 1980, based on total deposits. Consolidated-asset size as of that date was $2.5 billion. It is the main subsidiary of New England Merchants Co. Inc. (NEMCO). Its CRA area extends from Boston to communities within a 15-mile radius.

Introduction

This CRA-success story was the result of several negotiating sessions between New England Merchants National Bank and MURAG, whose tangible product was a legally binding Community Reinvestment Compliance Agreement between them. As indicated through the terms of the contract, Merchants altered its policies to increase lending opportunities dramatically for consumers and small businesses within the greater-Boston area.

Reporting the details of the MURAG/Merchants agreement serves two purposes. First, it alerts consumers within the Boston area of changes within the bank, which will make home mortages and small-business loans more accessible to them. Second, it serves as a model for institutions and community-based organizations across the country who seek products that reflect a commitment to both the letter and the spirit of the Community Reinvestment Act.

Circumstances

After the Provident-branch denial, many area banks approached MURAG to ask for assistance in improving their CRA record. Among these was New England Merchants. The bank's holding company, NEMCO, intended to merge with Massachusetts Bay Bancorp Inc., and wanted to improve its CRA performance before the application was filed.

Process

Over the course of several meetings, MURAG and Merchants discussed the impacts that present bank policies had on people within the greater-Boston area. For example, Merchants wrote mortgages only on single-family homes, which excluded much of the housing stock of Boston and other older cities. The bank also had a policy of making no loans below $25,000, eliminating applicants from areas where housing prices fell below that figure. MURAG argued that such criteria as these discriminated against the intended beneficiaries of CRA: low- and moderate-income neighborhoods.

The negotiating sessions usually lasted several hours. These discussions exposed prejudices and personalities as well as disagreement over policies deemed prudent by the bank and unfair by the consumer advocates. After much work, the intense labor resulted in an agreement that has been nationally acclaimed both by banks and by community groups. As a term of the contract, MURAG agreed to support the application of New England Merchants to merge with Massachusetts Bay Bancorp.

Effects

With the Compliance Agreement, New England Merchants instituted several policy changes (see Appendix for full text). Among the highlights: the bank now lends on two- to four-family homes, offers 95-percent financing, and no longer has a $25,000-minimum loan amount. The bank agreed to target 25 percent of its total mortgage and home-improvement lending to low- and moderate-income areas within the CRA community. The bank formalized its policy toward overtime earnings: if stable, such income is now included as part of the applicant's effective gross income. For consumers with a limited credit history, the bank will use stable employment and rental-payment records. The bank now pays 5.25 percent on tax-escrow accounts, rather than the two to three percent it had paid hitherto, and has joined the Boston Mortgage Review Board, a voluntary group of consumers and bankers who review mortgage applications rejected by member banks. Several items in the agreement increase the bank's involvement in small-business lending; among these is a pledge to participate in government-sponsored programs that foster commercial revitalization.

After the agreement was signed, New England Merchants began to institute policy changes. The bank set up a CRA committee, including the heads of various lending departments, who report their activities to the chairman of the board. Because of NEMCO's size, disseminating word of new policies and practices consumes a considerable amount of bank time. The meetings keep officers abreast of progress make in promoting CRA work throughout the large institutions, and serve to spread the word throughout the bureaucracy that an agreement has been signed for new commitments to the institution's local lending area. Through periodic reports and informal communication, the bank keeps MURAG aware of problems and progress the bank has made in implementing the agreement.

One such area is that part of the agreement calling for Merchants to put 25 percent of its total annual mortgage and home-improvement money into owner-occupied, one- to four-family structures within low- and moderate-income areas of its CRA community. However, interest rates are now so high that much of the target population cannot affort to buy a home. MURAG recognizes that NEMCO will not be able to adhere to some of these terms.

A positive development has occurred in the area of small-business lending. The agreement calls for bank participation in commercial revitalization, and New England Merchants responded by joining MURAG and State Street Bank & Trust in a creative financing venture. Through the work of Congressman Brian Donnelly, MURAG received a $500,000 grant from the federal Economic Development Administration. This money was matched by both State Street and New England Merchants. The three parties have combined the moneys into a revolving loan fund. The fund will be used to back commercial and industrial revitalization of neighborhood shopping districts in the Dorchester, Hyde Park, and Mattapan sections of Boston. Each of the banks will provide technical assistance to loan applicants. Decisions on applications will be made by a board of community leaders.

The negotiations between MURAG and New England Merchants personnel that led to the fund were less delicate than those that led to the Agreement. The bank appears excited about its increased involvement in Boston's older neighborhoods and is eager to use its financial expertise to improve small-business districts that were once the centers of neighborhood activity. Beyond its paper commitment, then, New England Merchants is on its way toward establishing a reputation for complying with the spirit, as well as the letter, of CRA.

STATE STREET

The Bank

State Street Bank and Trust Company is a commercial bank with 15 offices in Suffolk County. State Street is the fourth-largest depository institution in Massachusetts (assets: $1.8 billion) and is wholly owned by State Street Boston Corporation, the fourth-largest bank-holding company in the state (assets: $2.6 billion).

Introduction

In this case, State Street Bank responded to the intent of CRA but not specifically to any part of the law or regulatory process. In other words, community organizations worked with State Street to implement CRA goals outside of the bank's specific request for a merger or acquisition. This case focuses on the policy changes and the practical results of State Street's decision to renew its commitment to urban lending. Organizations of residents and businesses took the lead in approaching and negotiating with the bank. This case is written specifically for community organizations and small businesses who want to use CRA to force financial institutions to live up to their obligations to their communities.

Circumstances

The story begins with the bank's decision to close its branch near the Fenway and Symphony area of Boston and ends with the bank's new role as a creative financial leader commited to the housing and business needs of the Fenway and the rest of the urban neighborhoods served by State Street. Two results were the financing of Boston's first limited-equity, privately financed tenants' cooperative and financial support of a first-in-the-nation revolving loan fund of government <u>and</u> bank moneys for urban small-business revitalization.

In 1979, like that of many other large banks, State Street's policy was to expand into the suburban, national, and international markets, even though most of the bank's assets came from urban customers and depositors.

On August 13, 1979, State Street placed a notice in the <u>Boston Globe</u> stating that it was petitioning the state Board of Bank Incorporation (BBI) for permission to close its oldest branch office, 130 Massachusetts Ave. at Boylston. The notice said that comments could be filed with the BBI until August 29.

The traditional response by banks to a branch that isn't making enough profit is to close it. Usually, no efforts are made to increase advertising, services, visibility, or lending. To the community, however, closing this branch indicated that State Street had failed to reach out. More important, closing an office and admitting failure indicated a lack of confidence in the neighborhood. Another view is that lowered profitability in a neighborhood indicates <u>residents'</u> lack of confidence in a bank, not vice versa. In any case, a bank is not the one hurt by closing an office.

Despite not lending to the community, a bank still offers services that residents need--convenient accounts, check cashing, safe-deposit boxes. When a branch closes, the neighborhood not only loses any potential lending and banking services, it also loses an important social anchor.

This was the case in the Fenway/ Symphony areas, and was a particularly hard blow at a time when the neighborhoods were working hard to become pleasant, safe, and affordable. Residents had formed committees, organizations, and development corporations to rid the area of crime and protect tenants from unscrupulous landlords and unresponsive city agencies. And now a major bank announced its unwillingness to participate in this revitalization.

Mechanics/Decision

The word "announced" is wrong for how quietly State Street informed the public about its decision. Since the bank told no one in the community, it took MURAG to tell community groups about the legal notice and the plans to close the branch.

MURAG staff contacted more than a dozen community organizations in the area and explained that a public hearing was possible but not mandatory. It was up to the state banking commissioner--the chairperson of the BBI--to decide if there was sufficient outcry to warrant a hearing.

Residents and organizations began meeting to discuss the effects of losing the branch office. MURAG explained the role that any bank should play in its community, as well as the specifics of the CRA legislation. Many of the community groups had some experience with investment and development issues, and realized that apart from convenient services, major credit needs would be unmet and their efforts to revitalize the area would be set back.

Once informed about the regulatory process, the community groups sent letters to the banking commissioner asking for a public hearing. On August 31, after receiving over 20 requests, Commissioner Mulligan scheduled a hearing for October 16. This step increased the leverage that MURAG and the community held over the bank: once the hearing was declared, the bank would be forced to discuss its decision in public. Stories concerning the branch closing ran in the trade publications Banker and Tradesman and American Banker, as well as in the local Boston and Fenway papers.

The bank claimed that the branch was unprofitable, that the Fenway community was incapable of generating a sufficient level of new deposits and loans to cover the cost of running their large, energy-inefficient offices. MURAG and the community residents countered that State Street had withdrawn loan officers, cut services, and failed to market its services affirmatively. The bank, the community asserted, had planned to discourage business, thereby justifying its own argument. MURAG further stated that despite this attempt, deposits had increased and the bank was indeed operating at a profit, though not up to the bank's standards for branches. Community groups provided data showing that the neighborhood was well-capable of supporting a branch if State Street was not blind to the positive changes going on around it.

By late September, the bank expressed willingness to meet with community representatives. There were several reasons. First, the bank wished to diffuse the negative coverage. Like most banks, State Street is extremely sensitive to bad publicicty both within the industry and in the community. Second, the bank knew that future regulatory approvals would depend on its CRA record and that its handling of this case would be a major part of that record. Finally, over the summer, the bank hired Edward Ward, who was quite sensitive to community concerns, as a new executive vice-president. Ward, whose duties included overseeing State Street's banking operations, was open to the idea that State Street might have left credit needs in its own backyard unmet.

Ward's appointment was significant. He was quoted in an article in Working Papers:

> A lot of us (in large banks) come into town and go home at night. We don't see what's going on right under our noses. Maybe this (the CRA) made us sit back and say, "We're missing a bit." It made us motivate our branches in the community to participate. . . .It made us go a little to the basics. After all, that's the business of banking-- to provide for the credit needs of the market. Over the years, I guess, we've gotten pretty fancy and gotten away from the basics. This made us go back to it.

In early October, the bank stepped up efforts to respond to community concerns. State Street's management asked Commissioner Mulligan to postpone the hearing so that the bank "could continue efforts to meet with the community." Mulligan responded that a request for a postponment would be taken as a withdrawal of the application. The bank thus either had to ride out the public outcry and go ahead with the application to close the branch, or had to attempt to negotiate with the community groups.

Without promising to remain in the neighborhood, State Street agreed to meet with a coalition of community organizations on November 5, 1979. About 12 groups helped compile information on the Fenway. The Fenway Project Area Committee (FenPAC) coordinated the testimony.

At the meeting, FenPAC director Douglas Koch introduced community representatives to the bankers, gave a brief development history of the Fenway, and described the various activities of the groups. Koch supported his presentation with maps, statistics, and reams of government and academic documentation.

After listening, Edward Ward responded that "there are a lot of things going on that we don't know about" and that he was "surprised by the demographics." Evidently, some myths had been eroded for everyone in the room: the bankers met responsible Fenway-area leaders, and community people met bankers who listened to them.

At the end of the meeting, the Community Advisory Committee, made up of the Fenway representatives, was formally recognized by the bank. State Street also indicated that they were ready to reconsider closing the branch and would be willing to work with the advisory committee on policy changes and improvement of services. They agreed to further meetings and substantive discussions on the branch closing. These meetings produced a solution that was deemed a victory

for both sides. The bank agreed to stay in the area, at another, smaller location down the street. So the bank could move out of its oversized, energy-inefficient building, and the community was able to keep a key financial institution. In addition, the bank agreed to increase its role in the economic life of the neighborhood. Ward and the bank had been convinced by the residents that there was a profitable market in the area. As Ward said, the pressure put on State Street to invest in Boston's residential neighborhoods was "simply good advice--good, intelligent advice." That realization was the community's victory.

Effects

Since that time, State Street has worked hard to create an investment policy that is both sensitive to the needs of the communities and profitable for the bank. State Street appointed a full-time community-development officer with access to the president and the board of directors, became much more involved in lending, as noted, and was the first Boston bank to oppose publicly the financing of development projects that would convert apartments to condominiums and force out tenants.

In December, 1979, Ward appointed John McCaffrey, a long-time State Street employee, as assistant vice-president for community development. McCaffrey's most recent position had been in developing new business accounts in the metropolitan area, so he was familiar with the problems and needs of businesses in the older sections of Boston. In his new position, he was given both lending authority and access to Ward and William Edgerly, president of State Street.

McCaffrey soon had a chance to prove himself. Just after the bank had entered into discussions with the Fenway-area community, a tenant in an apartment building down the street from the branch office noticed that her landlord was showing the building. Eviction loomed for the long-time residents if the building were to be sold to a developer who would convert it to condominiums. One tenant, Carla Rideout, called MURAG for information on tenant cooperatives. MURAG referred her to Jack McCaffrey.

McCaffrey agreed to help and assisted the tenants at every step. Once the bank became involved, the landlord agreed to sell the building to the tenants. McCaffrey's work allowed the tenants to stay at quite affordable prices as well as gain equity in the building, and of course, the loan was profitable for the bank.

While the bank's first test of its new policy came in housing, most of its lending is in business and industry. In September 1980, Ward and McCaffrey, who had been promoted to vice-president, represented the bank at the announcement of a creative financial package for the revitalization of eight commercial districts in Dorchester, Hyde Park, and Mattapan. This program, designed by Congressman Brian Donnelly (D-Dorchester) and MURAG chairman Hugh MacCormack, targeted a $500,000 grant from the federal Economic Development Administration, matched with $500,000 from both State Street and New England Merchants National Bank, to small-business loans in these eight commercial nodes. As mentioned, this money would create a revolving loan fund, administered by MURAG and controlled by a board of community leaders. As Donnelly announced, this loan fund was the first of its kind in the nation to combine government, private, and community resources. "Without the full support and enthusiasm of the banks, EDA would never have funded this project," Donnelly added. State Street will also provide technical assistance to the fund.

While State Street's specific community-development projects have been impressive, its attitude toward urban investment has been even more important. Perhaps the most significant move has been the bank's statement that it will not finance projects that force out tenants through condo conversion. Many banks respond to CRA by investing lots of dollars in a single large project in urban neighborhoods, which turns out to be a condominium conversion that causes widespread displacement of long-term, low- and moderate-income residents. State Street's recognition that such projects are seldom a "credit need" of the community is extremely important.

In addition, State Street's involvement has included seminars on small-business management and cooperative housing.

Other Results

One of the reasons lending institutions have shunned the inner city is the cost of attracting business. Advertising and "outreach" activities were not aimed to meet these needs. Rather than using this excuse, State Street looked at the positive media attention resulting from their strong commitment to the urban market as advertising for new business.

Community groups and small businesses also learned the importance of CRA. Although branch closings technically are not covered under CRA, the community was able to organize around the problem of disinvestment. By presenting a well-documented, organized argument, the community placed the bank in an uncomfortable position. By using the threat of future CRA-based challenges, the community forced it to listen. Then they convinced the bank that it could still make money in the neighborhood. So the small businesses in the area, who had not had any help from the bank in years, now have an active partner in their fight for a revitalized commercial district.

FREEDOM FEDERAL

The Bank

Freedom Federal Savings and Loan Association is the largest savings-and-loan association in New England. Assets as of the end of 1979 were $765 million. Its offices stretch across much of Massachusetts, from Cambridge to Holyoke.

Introduction

This case focuses on the results of a CRA challenge that was unsuccessful. Freedom Federal was given permission to merge with a smaller, Cape Cod bank, Bay Colony Federal Savings. The federal regulatory agency gave its approval in large part because of the bank's plans, in areas, to increase lending that MURAG and others considered deficient. Since the approval, the bank has established relationships in previously ignored areas and strengthened existing ones. While there has been, to date, no dramatic increase in conventional financing, there has been a marked increase in the bank's involvement in municipally sponsored development efforts. Because of the aftermath of the challenge, cases such as this demonstrate how local officials can benefit from the Community Reinvestment Act.

Circumstances

In the spring of 1980, Freedom Federal Savings and Loan Association announced its intent to merge with the Bay Colony Federal Savings and Loan Association, of South Yarmouth, Massachusetts. Freedom Federal was already the largest federally chartered loan association in New England. The Yarmouth merger would add a fourth market area to the Worcester-based institution: offices had already been established in greater Springfield and in Cambridge and Watertown, two cities within the Boston metropolitan area.

Because of CRA, federal regulators must assess a bank's record of meeting community credit needs whenever it seeks to expand. Upon notification of Freedom Federal's merger intention, MURAG decided that it, too, would examine the bank's lending record. Savings-and-loan associations are chartered specifically to facilitate homebuying, so MURAG centered its investigation on the institution's mortgage record. In all of its markets, MURAG found, Freedom Federal's level of mortgage lending was much less than what the largest savings and loan in New England's should be. Although activity was virtually nil in lower-income census tracts, more striking was the near-total absence of lending throughout the bank's area regardless of tract income.

After the initial analysis of home-mortgage-disclosure data, MURAG examined Freedom Federal's statement of condition to determine where the institution was investing its depositors' moneys. MURAG realized that Freedom Federal bought heavily in government-backed real-estate securities. It also participated to a large extent in development guaranteed by the federal Department of Housing and Development (HUD). Through this activity, it had financed the construction of housing units for low- and moderate-income families and individuals, especially the elderly.

MURAG then contacted neighborhood organizations throughout Freedom Federal's farflung CRA communities to determine involvement with community-development efforts. The majority of groups had little or no contact with the institution; indeed, there was no evidence that the bank had even attempted to establish working relationships with most local groups.

MURAG decided to approach bank executives. While the bank agreed in principle with most of MURAG's analyses, the month-long series of negotiations ended when Freedom Federal declined to sign an agreement with MURAG to improve lending. At that point, MURAG decided to challenge the merger application before the bank's regulator, the Federal Home Loan Bank Board (FHLBB).

On May 15, 1980, arguments of both the applicant and MURAG were heard before the board. MURAG focused its arguments on Freedom Federal's lack of mortgage originations throughout its CRA territory. For example, the bank wrote only 15 mortgages, worth $247,450, in the city of Springfield during 1978. In Chicopee, from 1976 through 1979, only two home mortgages were granted. Overall, for every $12 invested in real-estate loans, only $1 went into the CRA community, only 8.6 percent of the total real-estate dollars invested. MURAG acknowledged that the association's participation in government housing-construction programs did partly fulfill its CRA commitment. However, this contribution to housing was overshadowed by the severe deficiencies in the bank's conventional lending record. MURAG also drew the board's attention to the irregular shape of the association's "eastern" CRA community. Rather than a delineation that included all communities contiguous to a branch office, Freedom Federal used a wedge-shaped area that included higher-income suburban communities to the west of its branches but excluded several cities, including Boston, that lay easterly. MURAG questioned whether the effect of such a delineation was not to gerrymander some communities out of the CRA area. Freedom Federal countered with highlights of the bank's "future-plans" section of the application, an addendum filed to rebut MURAG's original brief. The new objectives included an investment of 80 percent of 1980's real-estate investments into designated CRA communities. Bank officials released lending figures for the first quarter of 1980 and announced that the bank had expanded its residential-mortgage underwriting standards to offer 90-percent financing. Freedom Federal also argued that the loan volume of all thrift institutions should be examined to give a picutre of total demand.

On August 15, 1980, the Federal Home Loan Bank Board voted to approve the merger conditionally. The rationale for the decision rested on the board's satisfaction with the future-plans section of the application. Through the terms of the approval, board chairman Jay Janis intended to focus the attention of the management of the association on general concerns that the board had with regard to CRA performance. The commitments made by the bank in its "future" section had included the following: to increase mortgage lending, to research local housing markets, to sponsor "outreach" counselling and community financial-guidance programs, and to conduct training sessions for branch personnel to acquaint them with CRA. With its approval, the FHLBB warned that

> there is an implication that there will be changes in a positive direction... . For Freedom merely to have a record that says they have...analyzed and nothing has changed would be inadequate.... We will put strict conditions in and we will monitor those conditions to see that change actually occurs in the community.

Results

Over a year and a half have passed since Freedom Federal filed its merger application. While not an adequate period to judge performance completely, enough time has elapsed to identify lending trends. The bank now offers 95-percent mortgage financing, a benefit to consumers struggling to save for a downpayment in a time of such high inflation. Of interest to public officials is the institution's increased reaching out to local-level public initiators of housing programs. Although some of these efforts are a continuation of pre-merger involvement, activity has occurred in formerly ignored areas of the bank's CRA community as well. For example, the Cambridge Housing Authority (CHA) approached Freedom Federal, seeking its participation in the Section 8 moderate-rehab program, designed to give landlords incentive to improve rental housing. This program is now under way. In Worcester, bank personnel serve as consultants to Catholic Charities, an organization that builds elderly housing. In Watertown, Freedom Federal has worked with the planning department on a federal proposal to fund community development. In Springfield, the bank, in conjunction with the Housing Allowance Program, participated in a homeownership program aimed at two contiguous city neighborhoods.

The direction the bank appears to be taking is leading to an increase of its efforts in those aspects of housing development with which it is already familiar. Public officials within Freedom Federal's CRA community should exploit the bank's preferences and make use of the expertise available through its management. Representatives of local government would do well to bring their ideas and their problems, as well as firm proposals, to Freedom Federal for evaluation, criticism, and advice, taking advantage of services the bank can readily provide.

However, the institution still seems to have difficulty establishing relationships with most community-based organizations. To fulfill the conditions of its approval, the bank must find, work with, and fund myriad projects, including those presented by community-based organizations. The longer it procrastinates, the more difficult will be its entry into this level of CRA activity. The bank, interested in further growth, may find that regulators will be hard-put to approve subsequent mergers when there has been no evidence "that change actually occurs in the community."

FIRST AMERICAN AND PEOPLE'S FEDERAL

Introduction

Throughout the history of CRA and the effort to promote reinvestment in urban areas, community leaders have stressed that they do not want banks to make giveaway loans or handouts simply to fulfill obligations or attract publicity. Community-reinvestment advocates have been saying, instead, Just look at urban neighborhoods as another profitable market. Don't give away money. Lend it to creditworthy citizens in these areas.

This section focuses on banks that have staked out urban communities as their primary markets. These banks not only have reaped publicity from the community but have turned this publicity into a profitable business venture. While CRA itself had little to do with the decisions to invest locally, the law has given advantagees to the banks. Official recognition of meeting local credit needs legitimizes the role of a bank in its community. Slowly, satisfactory CRA performance is providing banks a competitive advantage in gaining, among other things, lucrative government investments and contracts.

The Bank

First American Bank for Savings is a state-chartered mutual savings bank with its main office in Dorchester, seven branch offices in Boston, and one each in Stoughton and Quincy. Its assets are over $292 million.

Until 1977, First American was known as the Dorchester Savings Bank and suspected by the community of redlining and disinvestment. Early in 1977, the bank petitioned the state banking commissioner to change its name and to open a branch in suburban Stoughton. These applications, following closely the opening of two downtown branches, gave the impression to the Dorchester community that First American was abandoning it.

The bank had been picketed by community groups because of its poor community-investment record; reception to it in the banking-commissioner's office, then under the direction of Carol Greenwald, was no warmer. Indeed, Dorchester state Representative Brian Donnelly urged residents to withdraw their deposits from the bank.

Branch applications were not all the community had to show for the bank's lack of interest; research on First American's mortgage lending showed that, despite assets of over $260 million, the bank had made only about $1.6 million in mortgage loans each year from 1971 to 1974.

The bank claimed that $1.6 million represented the total demand for mortgages. Community representatives claimed that that total was the limit the bank was willing to lend. Commissioner Greenwald agreed with the latter, and held up permission for the bank to open its Stoughton branch.

So in April 1977, the bank announced the formation of the First Fund for Dorchester's Future, a pool of money set aside annually for mortgages in Dorchester and Mattapan. It was set with $3 million.

While not admitting to the community charges, FABS president Arthur F. Shaw Jr. did admit that the bank had problems due to bad publicity, "We knew we had to come up with something to answer the redlining allegations. We had to prove they weren't true. It was purely selfish. And the First Fund is what we came up with."

Community groups agreed. Lou Finfer, who led the picketing while director of Dorchester Fair Share, said, "A Dorchester-based bank can't afford to alienate Dorchester. They were in a vulnerable position. They had to balance their records."

The First Fund also meant that the bank would advertise the Fund and its other services, sponsor homebuyers' workshops, and hire a community resident as the bank's new community-relations officer.

Despite skepticism on all sides--the bank wanted to prove its point about lack of mortgage demand, and the community felt the Fund was only public relations--the Fund was a phenomenal success. In its first 14 months, the bank made 370 mortgages in Dorchester for $5.6 million. The fund was increased to $8 million, and Shaw said he was willing to increase it to $15 million, ten times what the bank had lent in 1976. In the four years since its inception, the First Fund has made 1118 mortgages for more than $22 million in Dorchester and Mattapan.

The bank has held 13 homebuyers' workshops attended by more than 1100 people. It supports or participates in nearly all government housing programs and leads all Boston banks in the number of mortgages given under city housing programs. The bank has sponsored or financed many community organizations and projects that have helped ensure that Dorchester is a healthy area to live in. Even as a large downtown bank announced plans to close a branch in Dorchester, FABS took out ads in the local newspapers to announce: "We're Staying!"

Four years after the bank was being picketed and boycotted, community leaders are endorsing First American. "First American has been very imaginative. They've helped give people faith in Dorchester," James Carras, of MURAG, believes that Arthur Shaw Jr. is "a born-again banker. Born-again in the sense that he really has changed his thinking about the bank's relationship to its community. First American isn't just in Dorchester, it has become part of Dorchester."

Ed Forry, First American's Director of Community Relations, wrote in Savings Banker, "The community's well-being is fundamental to a savings bank's future. The bank and the community prosper together, or they decline together.... A savings bank is truly an integral and vital part of any community.... After some 16 months of affirmative community-relations efforts, our efforts in the community have not gone unnoticed. And best of all, we think the future is brighter in the community as the result of our efforts."

Four years ago, banks felt that Dorchester was too risky a place to lend money. Today, much of this attitude has changed. When the financial institutions show that they have faith in the community by committing dollars and loans, the residents and businesses can then get the financial resources to realize this faith.

Since the Fund was started, the bank's Dorchester investments have proved both profitable and safe. Because of the care and work put into home-buying counseling, First American has not had a foreclosure on any mortgage lent under the First Fund. First American and Dorchester have been reborn together.

PEOPLE'S FEDERAL

The Bank

People's Federal Savings and Loan Association has one office, in Brighton Center. Its assets total $27 million.

Story

"We...are presently confronted with the assertions of persons known to us that their depository institutions are not granting mortgages. We know these people and know them to be of excellent repute and to be worthy credit risks. We believe that this situation is precipitated by...an opposition to the financing of mortgages in the area." The association that wrote this statement is a bank in Brighton, People's Federal Savings and Loan Association.

If other banks are slowly fulfilling their community obligations because of CRA, People's Federal is the model that community and reinvestment activists would like them to follow. Founded in 1917, it is based on the tradition that money deposited by community residents *always* was to be returned to the community as mortgage loans. Over 85 percent of the bank's deposits are invested in mortgages and home-improvement loans in Allston and Brighton.

People's Federal's record and reputation come from the association's philosophy of community support. In a statement published in the *Allston-Brighton Community News*, People's Federal President Maurice Sullivan wrote, "The new People's Federal Savings and Loan Association building in Brighton Center stands today as a tribute to the representative citizens of the Allston-Brighton area.... [It]...represents the effect of the blue collar and the brown-bag lunch, the badges of the ordinary man's and woman's quest for security and economic progress." In the Allston-Brighton Community Beautification Council's *Annual Bank Report, 1979*, which gave People's Federal its highest rating, Sullivan wrote, the bank invested in "the aspirations of the young Allston/Brighton families, in comfortable residences for elderly, and in the enthusiasm of our early-middle-aged."

People's belief in community extends beyond its primary purpose; in the winter, People's keeps its outer lobby heated and unlocked, and invites people waiting for buses to stand inside. Care has been taken to have all bank employees, from teller to president, get to know customers by name and circumstance. "We know if a customer can't make a mortgage payment because he or she is in the hospital before the payment is late. Because we know our customers, we know that that person will pay us back as soon as circumstances allow," Sullivan boasts. "We have very few foreclosures. In my first 15 years as president, we had only one foreclosure, and that was when we couldn't find the mortgagor."

BASIC RESEARCH TOOLS

For each of the preceding case studies, MURAG relied on sources available to the public. The following description provides a general introduction to these research aids, with specific applications used throughout the studies.

The foundations of community-based investigation rest on the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA). CRA requires every bank to compose a CRA statement for its community. (See Appendix VIII for an example.) Each CRA statement must include a delineation (usually a map) of the territory the bank considers its CRA lending area, a list of the types of credit services the bank extends to the local community, and a copy of the CRA notice. The notice provides the name of the regulatory agency responsible for enforcement at that bank of CRA. Regulators can serve as sources of information not only concerning bank policies and practices but also regarding larger economic trends.

Although CRA statements vary in the amount of detail given, they enable the reader to survey how well the types of credit offered meet those needed by the community. For example, a bank in a neighborhood of multi-family housing should not limit its lending to single-family housing, for to do so clearly does not help meet needs as required by CRA.

Data provided by HMDA reports give further insight into bank performance. HMDA requires banks to list by census tract or Zip Code the type, number, and amount of mortgage loans made during a calendar year (see table).

HMDA Table

Census Tract or Zip Code	FHA, FmHA, or VA Loans	Other Residential Mortgage Loans	Total Residential Mortgage Loans
CT 0901		1 $34,000	1 $34,000
CT 0903	1 $36,000	3 $90,000	4 $126,000
CT 0905	1 $40,000		1 $40,000
Z 01111	4 $100,000	2 $50,000	6 $150,000
Z 02222		1 $26,000	1 $26,000

<u>Explanation of Codes</u>

CT - Census Tract
Z - Zip Code

FHA - Federal Housing Admin.
FmHA - Farmers' Home Admin.
VA - Veterans' Admin.

The availability of HMDA data makes possible regular monitoring and hence a comparison of lending institutions. It also points up disparities in lending patterns. For example, a bank that delineates a city as its CRA community may have done little urban lending, while HMDA reports may reveal substantial lending in higher-income, suburban areas. While there may be legitimate reasons for a lack of mortgage lending, such as the absence of housing in an industrial area or a lack of property turnover, HMDA reports provide a good look at lender performance.

Further information can be gotten by a search through the local Registry of Deeds. The Registry records all real-estate transactions secured by property and should be utilized if there is suspicion that other, more expensive sources of credit, such as mortgage companies, have replaced banks as the primary source of mortgages.

HMDA data are especially useful in analyzing the behavior of local savings banks, the institutions who traditionally have provided homeownership financing. As of this writing, neither regulators nor legislators have required banks to disclose the extent of small-business-loan activity. Because of this gap in information, it is hard to get a full picture of areas with a mix of residential and commercial uses.

In addition to the data provided by CRA statements, HMDA, and the Registry of Deeds, there are local planning departments, regional-planning agencies, and universities, all of whom may well have demographic data available. If not, the Bureau of the Census can provide information on the age of housing stock, numbers of minority individuals, and the like. There are also informal sources: neighborhood or commercial-strip surveys add a human dimension to hard data. Comments on the attitudes of bank personnel, services, and appropriateness of marketing strategies all tell how a bank's community views it.

All of this--formal data as well as impressions--is worth having before beginning discussions with local financial institutions.

APPENDICES

I	Text of CRA regulations
II	Assessment factors
III	State assessment directive
IV	State CRA-officer-appointment instructions
V	Text of Home Mortgage Disclosure Act
VI	State disclosure directive, 1980
VII	MURAG-NE Merchants compliance agreement
VIII	NE Merchants CRA statement

federal register

THURSDAY, OCTOBER 12, 1978
PART V

DEPARTMENT OF THE TREASURY

Comptroller of the Currency

FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

FEDERAL HOME LOAN BANK BOARD

■

Community Reinvestment Act of 1977; Implementation

[6720-01-M]

Title 12—Banks and Banking

CHAPTER I—COMPTROLLER OF THE CURRENCY, DEPARTMENT OF THE TREASURY

PART 25—COMMUNITY REINVESTMENT ACT REGULATIONS

CHAPTER II—FEDERAL RESERVE SYSTEM

PART 228—COMMUNITY REINVESTMENT

CHAPTER III—FEDERAL DEPOSIT INSURANCE CORPORATION

PART 345—COMMUNITY REINVESTMENT

CHAPTER V—FEDERAL HOME LOAN BANK BOARD

PART 563e—COMMUNITY REINVESTMENT

Community Reinvestment Act of 1977; Implementation

AGENCIES: Board of Governors of the Federal Reserve System, Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board.

ACTION: Final regulations.

SUMMARY: These regulations implement the Community Reinvestment Act of 1977, and are intended to encourage regulated financial institutions to fulfill their continuing and affirmative obligation to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with safe and sound operation of such institutions. The regulations provide that the Agencies will assess institutions' records in doing so, and take those records into account when evaluating certain applications by those institutions.

EFFECTIVE DATE: November 6, 1978.

FOR FURTHER INFORMATION CONTACT:

Jerauld Kluckman, Board of Governors of the Federal Reserve system: 202-452-3401; Alan Herlands, Comptroller of the Currency: 202-447-1177; Roger Hood, Federal Deposit Insurance Corporation: 202-389-4628; Nancy Feldman, Federal Home Loan Bank Board: 202-377-6443.

SUPPLEMENTARY INFORMATION: On page 29918 of the FEDERAL REGISTER of July 11, 1978, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board (collectively referred to as "the Agencies") proposed regulations to implement the Community Reinvestment Act of 1977 ("the CRA"). It is the purpose of the CRA, which was enacted as Title VIII of the Housing and Community Development Act of 1977 (Pub. L. 95-128), to require that, in connection with their examination of institutions under their jurisdiction, the Agencies encourage each institution to help meet the credit needs of its local community. The CRA further requires the Agencies to assess each institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution, and to take that record into account in its evaluation of any application by the institution for a charter, deposit insurance, branch or other deposit facility, office relocation, merger, or acquisition of bank or savings institution shares or assets. The Agencies have received numerous comments regarding the proposed regulations and have revised the regulations after considering the concerns of the commenters.

The Agencies' final regulations, which are presented together for convenience, are identical in their substantive provisions, but contain technical and procedural variations. An explanation of the comments regarding each provision of the regulation, and of changes in those provisions, is set forth below.

PURPOSE: Commenters suggested that the proposed language, that a purpose of the regulation is to "require institutions to demonstrate that their offices serve the convenience and needs of their communities," was not within the scope of the CRA. While this language is contained in the findings of the CRA, this section has been revised to reflect more closely the operating language of the statute.

DELINEATION OF COMMUNITY

Most of the comments received on the delineation of entire community section indicated that the proposed section did not make the responsibilities of institutions clear. In particular, there was confusion about the relationship between an institution's "entire" community and its "local" community or communities. Both terms are used in the statute. The section has been revised to clarify the delineation process. Each institution's entire community will consist of one or more local communities, and guidelines are given on how to define the local community or communities. As suggested by commenters, the revised regulation requires, instead of encourages, the use of maps to delineate local communities to insure a clear and understandable delineation.

The regulation contains two suggested bases for delineating local communities: One takes boundaries from existing areas such as counties, and the other defines an area known as the effective lending territory. Both types of areas are subject to certain adjustments.

In general, a local community based on existing boundaries should be no larger than an SMSA or non-SMSA county, which are areas that the Agencies have used to approximate relevant markets for the purpose of evaluating the competitive effects of mergers and holding company acquisitions. If an institution has offices in more than one such area, it will have more than one local community. When an institution has an office near the boundary of an SMSA or county, it should include those portions of adjacent counties that it serves. In rural areas, a local community may encompass more than one county, but, generally, institutions should not use States or regions of States to delineate local communities. A small institution that serves an area smaller than an SMSA or county may define its community to be a part of the SMSA or county.

A local community based on the effective lending territory of an institution with one office will be a roughly circular area around that office which includes the area in which the institution makes a substantial portion of its loans. Where an institution has several offices serving the same local area, the local community should be drawn to include the areas where each office makes a substantial portion of its loans and all other areas equally close to any of the offices. Use of existing boundaries is still encouraged where practicable.

Communities defined on either basis can be adjusted for other factors such as significant geographic barriers. In addition, subsection (b)(3) permits the use of any other local area to serve as a basis for delineating a local community.

Several comments suggested that low- and moderate-income neighborhoods should be defined. The Agencies are undertaking a program, using the Department of Housing and Urban Development definition of low- and moderate-income, to assist their examiners in identifying areas that may be low- and moderate-income neighborhoods. Further guidance will be contained in the Agencies' examination procedures which will be publicly available on or about November 6, 1978. Institutions are expected to be generally aware of low- and moderate-

income neighborhoods within their community, without undertaking extensive research.

The Agencies received a variety of comments regarding the inclusion of off-premises electronic depository facilities in the term "office." In general, the Agencies believe that unshared facilities should be included for purposes of delineating an institution's community. However, the revised regulation provides that an electronic deposit facility, the use of which is shared with another financial institution, need not be taken into account in delineating local communities unless the Agency determines otherwise.

Community Reinvestment Act Statement

Many commenters found the requirements of the proposed Community Reinvestment act Statement ("CRA Statement") section unclear. To clarify what is required of institutions, that section has been divided into three: one provides for the adoption and availability of CRA Statements; another sets forth requirements for public files; and a third requires a public notes of the availability of the CRA Statement and files.

Revised subsection (a) of the CRA Statement section now requires that a CRA Statement be prepared for each local community which an institution serves. The same CRA Statement is to be used for every office within one local community.

Several commenters felt that the list which now appears in subsection (b)(2) of the statement section indicated an Agency preference for types of credit which were not covered by the purposes of the CRA. This list is intended by the Agencies only as an example of the degree of specificity that an institution should use to describe the types of credit which it is prepared to extend within its local community.

Subsection (c) describes the additional material the Agencies encourage each institution to include as part of its CRA Statement. A new provision encouraging each institution to describe its efforts to ascertain community credit needs, including communication with community members, has been added. New subsections (e) and (f) clarify the manner in which an institution must make its CRA Statement available to the public.

Files of Public Comments and Recent CRA Statements

This new section clarifies requirements formerly contained in section (f) of the CRA Statement section in the proposed regulation. Some commenters recommended that the comment file not be made public, but the Agencies believe that it may contribute to more effective community comment. In response to other comments received by the Agencies with regard to the file requirement, the new section now provides that only signed, written comments that specifically relate to any CRA Statement or to an institution's performance in helping to meet the credit needs of its community must be retained. Materials should not be included that are harmful to any person's good name or reputation (including employees of the financial institution or its supervisory agency), or relate only to the particulars of any person's credit application. This provision does not permit the institution to exclude materials from the file merely because they are critical of the institution's CRA Statement or performance. An institution may include its own responses to public comments in the file. New subsection (c) indicates where the files must be maintained by the institution.

Public Notice

This new section combines in one place the materials required to be included in a public notice. To simplify preparation of the notice, this section now prescribes a standard public notice to be used by all institutions. An institution may reprint this notice as a poster or flyer to be place in its lobby. The notice requirement may also be satisfied by making the CRA Statement, which includes the notice, available as a brochure in the lobby.

The final two paragraphs of the notice embody one outcome of the Agencies' decision to review their procedures for giving notice of applications to the public. They will inform members of the public that they may request to be informed of applications covered by the CRA made by the institution or its holding company.

A major purpose of the sections on the CRA Statement, files and notice is to promote a dialogue between the institutions and their communities regarding community credit needs. Obtaining community members' views would not, as some commenters suggested, alter management's role in arriving at credit decisions.

Many commenters thought that the requirements of these sections would place an undue burden on institutions, and in response to the Agencies' request for specific comments many commenters recommended that institutions with assets of less than $10 million, or less than $25 million, or institutions in rural areas, be exempted from the CRA Statement requirements. However, the Agencies concluded that these requirements are essential to effective implementation of the CRA and are not unduly burdensome.

Assessing the Record of Performance

Several commenters felt that the assessment would only be made in connection with an application. This section states that the Agencies will assess an institution's record of performance "in connection with its examination of" the institution. Although the examination may be divided into several parts, which may be conducted at different times and cover different areas of an institution's operations, the Agencies examine institutions on a regular schedule.

The proposed regulations indicated that the Agency would review an institution's "marketing and lending policies and practices to determine whether they are designed to help meet those needs and assess its record of performance." Commenters felt that this implied a recordkeeping requirement or a broad policy of interference with an instutition's business decisions. Neither was intended, and the phrase has been deleted to avoid confusion. The assessment will focus on the factors enumerated in this section and will be based on the institution's existing records in addition to the CRA Statement and files.

Some commenters believed that institutions attempting to comply with the CRA would be forced to make imprudent credit decisions. However, the Agencies will always conduct their assessments giving consideration to the safety and soundness of the institution.

Several comments suggested that the factors should be made more specific or given specific weights or developed into an explicit scoring system. The factors have been revised slightly to clarify them, but the Agencies believe that specific weights or scoring systems would not adequately address the diversity of institutions and communities amd would prevent rather than encourage thoughtful response to community needs. No weighting scheme is intended by the order in which factors are presented.

Factors (a) through (c) related to an institution's record of communication with its community and its efforts to gear its policies to community needs. Subsection (a) combines (a) and (b) from the proposed regulation. The revision makes it clear that while communication about credit services is encouraged, the institution is responsible for the establishment of its policies. An institution may find it helpful to communicate with local goverment officials, housing and community development agencies, and representatives of business groups and community organizations. Subsection (b) (former (c)) includes not only advertising but communication with real estate brokers and activities such as mortgage

counselling. Subsection (c) (former (e)) deals with board participation in its institution's consideration of the CRA. Commenters suggested that the regulation not specify the role of the board. The Agencies believe, however, that the CRA presents issues at a level of importance that warrant the board's attention.

Subsections (d) through (f) and, in part, (g) deal with evidence of practicies which are or may be in conflict with the purpose of the CRA. Subsection (d) has been revised to read "practices intended to discourage applications" to make clear that the Agencies wish the list of credit in the CRA Statement to be made in good faith. An institution will not be adversely assessed if general credit conditions make it temporarily impossible for the institution to offer listed credits.

Subsection (e) (former (f)) involves an assessment of an institution's lending patterns to see if the institution discriminates between geographic areas or excludes qualified borrowers from low- and moderate-income neighborhoods. It will be based on records required under Federal Reserve Board Regulations B and C and other existing data, and, in appropriate cases, Agency research. Proposed subsection (1), which addressed the issue of displacement, has been eliminated as commenters found it confusing. However, in connection with their assessments, the agencies will look favorably upon efforts by institutions to assist existing residents in neighborhoods undergoing a process of reinvestment and change.

Subsection (f) (former (j)) refers chiefly to violations of the Equal Credit Opportunity Act and the Fair Housing Act. Some commenters felt that "violations" could be determined only by a court. However, the Agencies believe evidence of violations found by examiners would be a material consideration in evaluating applications covered by the CRA. Subsection (g) (former (k)) refers in part to closing offices, and the failure to provide usual services—such as not accepting mortgage applications—at certain branches, where the effects are contrary to the purposes of the CRA.

Subsection (g), in part, and subsections (h) through (j) refer to efforts by an institution to meet the credit needs of its community. Subsection (g) refers in part to opening offices in low- and moderate-income neighborhoods and providing services, such as bilingual staff, in response to the needs of particular neighborhoods. Subsection (h) (former (g)) includes institution participation in the HUD Community Development Block Grant program and other efforts sponsored by Federal or State agencies, as well as development programs of local governments and private groups.

Subsection (i) (former (h)) lists the types of loans which the Agencies believe are most directly related to the purposes of the CRA. A record of providing these types of credit to all segments of its community consistent with safe and sound operation will be viewed favorably by the Agencies.

Several commenters were opposed to subsection (j) (former (i)). However, their comments were aimed chiefly at discriminatory policies of certain institutions in granting conventional versus Government insured mortgages. Several commenters were in favor of (j) and the Agencies believe that the programs can be used to meet the credit needs of many communities. Subsection (k) (former (m)) makes it clear that an institution's service to its community will be assessed with consideration given to its size and financial condition; legal restrictions on permissible activities, interest rates, and branches; and other factors which affect its ability to help meet community credit needs.

Several commenters suggested possible additional factors for agency consideration. Subsection (l) (former (n)) indicates that the list of factors is not exhaustive. The Agencies wish to encourage innovative responses to community needs and will be ready to consider favorably any efforts to meet community credit needs.

Several commenters suggested that State and municipal bond purchases should be included as a factor. Implementation of the CRA is not intended to discourage the purchase of these bonds, or secondary mortgage market securities, or to impair or disrupt capital flows from surplus to deficit regions, or to impose any other general priority in the use of an institution's available funds. Therefore, the Agencies will not give special consideration to the purchase of State and municipal bonds unless they further special purposes in the community, such as the construction or rehabilitation of low- and moderate-income housing or other neighborhood or community development, or are issued by municipalities or other local public financing units which do not have access to the capital markets.

EFFECT ON APPLICATIONS

This section is somewhat different from Agency to Agency to allow for procedural variations. However, each of the Agencies has added a statement that an institution's record of performance may be the basis for denying an application. When that record has been considered to be a material factor in evaluating an application, the Agencies will discuss the institution's record of performance in its statement announcing its decision.

Several commenters felt that the Agencies should make their examination of institutions' records public on a regular basis. However, the Agencies believe that this would impair the objective appraisal of an institution's performance required in the examination process.

RELATED REGULATIONS

Elsewhere in this issue of the FEDERAL REGISTER each Agency is publishing separately revised regulations regarding notice of applications to the public and other procedural matters. These are in addition to the provisions of the final paragraph of the required Public Notice.

The Federal Reserve Board, Comptroller of the Currency and the Federal Deposit Insurance Corporation have also published in this issue of the FEDERAL REGISTER an interpretation of the regulation which exempts institutions which conduct only correspondent banking, trust company, or clearing agency business. Further, the FDIC has published an interpretation which clarifies the regulation with respect to insured branches of foreign banks.

The Agencies find that publication of the amendments for the full 30-day period specified in 5 U.S.C. 553(d) would not be in the public interest because the regulations are required by statute to take effect on November 6, 1978.

Accordingly, the Agencies hereby amend 12 CFR parts 25, 228, 345, 563e to read as set forth below.

[4810-33-M]

PART 25—COMMUNITY REINVESTMENT ACT REGULATIONS

REGULATIONS

Sec.
25.1 Authority.
25.2 Purposes.
25.3 Delineation of community.
25.4 Community Reinvestment Act statement.
25.5 Files of public comments and recent CRA statements.
25.6 Public notice.
25.7 Assessing the record of performance.
25.8 Effect on applications.

INTERPRETATIONS

25.101 National banks performing limited services.

AUTHORITY: Community Reinvestment Act of 1977 (Title VIII, Pub. L. 95-128, 91 Stat. 1147 (12 U.S.C. 2901 et seq.)); 12 U.S.C. 21, 22, 26, 27, 30, 36, 161, 215, 215a, 481, 1314, 1816, 1828(c).

§ 25.1 Authority.

The Comptroller of the Currency ("Comptroller") issues this part under

the authority of the Community Reinvestment Act of 1977 (title VIII of Pub. L. 95-128), and under provisions of title 12 of the United States Code authorizing the Comptroller to charter national banks (secs. 21, 22, 26, and 27), to issue certificates to national banks to commence or resume the business of banking (secs. 1814, 1816), to consider applications from national banks to relocate a main office (sec. 30) or to establish or relocate a branch office (sec. 36), to consider applications for a merger, consolidation, acquisition of assets, or assumption of liabilities where the acquiring, assuming, or resulting bank is a national bank (secs. 215, 215a, 1828(c)), to require reports of condition (sec. 161), and to conduct examinations of national banks (sec. 481).

§ 25.2 Purposes.

The purposes of this regulation are to encourage national banks to help meet the credit needs of their local community or communities; to provide guidance to national banks as to how the Comptroller will assess the records of national banks in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including low- and moderate-in come neighborhoods, consistent with the safe and sound operation of those banks; and to provide for taking into account those records in connection with certain applications.

§ 25.3 Delineation of community.

(a) Each national bank shall prepare, and at least annually review a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps shall be used to portray community delineations. The reasonableness of the delineations will be reviewed by national bank examiners.

(b) A local community consists of the contiguous areas surrounding each office or group of offices, including any low- and moderate-income neighborhoods in those areas. More than one office of a national bank may be included in the same local community. Unless the Comptroller determines otherwise, a community delineation need not take account of an off-premises electronic facility that receives deposits for more than one depository institution. In preparing its delineation, a national bank may use any one of the three bases set forth below.

(1) Existing boundaries such as those of standard metropolitan statistical areas (SMSA's) or counties in which the bank's office or offices are located may be used to delineate a local community. Where appropriate, portions of adjacent areas should be included. The bank may make adjustments in the case of areas divided by State borders or significant geographic barriers, or areas that are extremely large or of unusual configuration. In addition, a small bank may delineate those portions of SMSA's or counties it reasonably may be expected to serve.

(2) A national bank may use its effective lending territory, which is defined as that local area or areas around each office or group of offices where it makes a substantial portion of its loans and all other areas equidistant from its offices as those areas. Adjustments such as those indicated in paragraph (b)(1) of this section may be made.

(3) A national bank may use any other reasonably delineated local area that meets the purposes of the Community Reinvestment Act (CRA) and does not exclude low- and moderate-income neighborhoods.

§ 25.4 Community Reinvestment Act statement.

(a) Within 90 days after the effective date of this part, the board of directors of each national bank shall adopt a Community Reinvestment Act (CRA) statement for each delineated community.

(b) Each CRA statement shall include at least the following:

(1) The delineation of the local community;

(2) A list of specific types of credit within certain categories, such as residential loans for one to four dwelling units, residential loans for five dwelling units and over, housing rehabilitation loans, home improvement loans, small business loans, farm loans, community development loans, commercial loans, and consumer loans, that the bank is prepared to extend within the local community; and

(3) A copy of the Community Reinvestment Act notice provided for in § 25.6.

(c) Each national bank is encouraged to include the following in each CRA statement:

(1) A description of how its current efforts, including special credit-related programs, help to meet community credit needs;

(2) A periodic report regarding its record of helping to meet community credit needs; and

(3) A description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.

(d) Each national bank's board of directors shall review each CRA statement at least annually and shall act upon any material change made in the interim at its first regular meeting after the change. Such actions shall be noted in its minutes.

(e) Each current CRA statement shall be readily available for public inspection:

(1) At the head office of the bank; and

(2) At each office of the bank in the local community delineated in the statement, except off-premises electronic deposit facilities.

(f) Copies of each current CRA statement shall be provided to the public upon request. A national bank may charge a fee not to exceed the cost of reproduction.

§ 25.5 Files of public comments and recent CRA statements.

(a) Each national bank shall maintain files that are readily available for public inspection consisting of:

(1) Any signed, written comments received from the public within the past 2 years that specifically relate to any CRA statement or to the bank's performance in helping to meet the credit needs of its community or communities;

(2) Any responses to the comments that the bank wishes to make; and

(3) Any CRA statements in effect during the past 2 years.

(b) These files shall not contain any comments or responses that reflect adversely upon the good name or reputation of any person other than the bank or publication of which would violate specific provisions of law.

(c) These files shall be maintained by each national bank as follows:

(1) All materials at the head office; and

(2) Those materials relating to each local community at a designated office in that community.

§ 25.6 Public notice.

Within 90 days after the effective date of this part, each national bank shall provide, in the public lobby of each of its offices other than off-premises electronic deposit facilities, the public notice set forth below. Bracketed material shall be used only by banks having more than one local community. The last item shall be included only if the bank is a subsidiary of a holding company that is not prevented by statute from acquiring additional banks.

COMMUNITY REINVESTMENT ACT NOTICE

The Federal Community Reinvestment Act (CRA) requires the Comptroller of the Currency to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the Comptroller decides on certain applications submitted by us. Your involvement is encouraged.

You should know that:

- You may obtain our current CRA statement for this community in this office.

[Current CRA statements for other communities served by us are available at our head office, located at ———.]

- You may send signed, written comments about our CRA statement[s] or our performance in helping to meet community credit needs to (title and address of bank official) and to the Regional Administrator of National Banks (address). Your letter, together with any response by us, may be made public.
- You may look at a file of all signed, written comments received by us within the past 2 years, any responses we have made to the comments, and all CRA statements in effect during the past 2 years at our office located at (address). [You also may look at the file about this community at (name and address of designated office).]
- You may ask to look at any comments received by the Regional Administrator of National Banks.
- You also may request from the Regional Administrator of National Banks an announcement of applications covered by the CRA filed with the Comptroller.
- We are a subsidiary of (name of holding company), a bank holding company. You may request from the Federal Reserve Bank of (city, address) an announcement of applications covered by the CRA filed by bank holding companies.

§ 25.7 Assessing the record of performance.

In connection with its examination of a national bank, the Comptroller shall assess the record of performance of the bank in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. The Comptroller will review the bank's CRA statement(s) and any signed, written comments retained by the bank or the Comptroller. In addition, the Comptroller will consider the following factors in assessing a bank's record of performance:

(a) Activities conducted by the bank to ascertain the credit needs of its community, including the extent of the bank's efforts to communicate with members of its community regarding the credit services being provided by the bank;

(b) The extent of the bank's marketing and special credit-related programs to make members of the community aware of the credit services offered by the bank;

(c) The extent of participation by the bank's board of directors in formulating the bank's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act;

(d) Any practices intended to discourage applications for types of credit set forth in the bank's CRA statement(s);

(e) The geographic distribution of the bank's credit extensions, credit applications, and credit denials;

(f) Evidence of prohibited discriminatory or other illegal credit practices;

(g) The bank's record of opening and closing offices and providing services at offices;

(h) The bank's participation, including investments, in local community development and redevelopment projects or programs;

(i) The bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small-farm loans within its community, or the purchase of such loans originated in its community;

(j) The bank's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms;

(k) The bank's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions, and other factors; and

(l) Other factors that, in the Comptroller's judgment reasonably bear upon the extent to which a national bank is helping to meet the credit needs of its entire community.

§ 25.8 Effect on applications.

(a) In considering an application for: (1) The establishment of a domestic branch or other facility with the ability to accept deposits; (2) the relocation of the main office or a branch office; or (3) a merger or consolidation with or the acquisition of assets or assumption of liabilities of a federally insured bank, the Comptroller will take into account, among other factors, the applicant's record of performance.

(b) In considering an application for conversion from a State bank charter to a national bank charter, the Comptroller will assess the applicant's record of performance, and will take into account, among other factors, that record.

(c) Applicants for a national bank charter other than a State bank shall submit a proposed CRA statement when the application is made. In considering the application, the Comptroller will take into account, among other factors, the proposed CRA statement.

(d) In considering an application described in paragraph (a), (b), or (c) of this section, the Comptroller will take into account, among other factors, any views expressed by State or other Federal supervisors of depository institutions or other interested parties, which are submitted in accordance with the Comptroller's procedures set forth in 12 CFR part 5.

(e) A bank's record of performance may be the basis for the denial of an application described in paragraph (a) or (b) of this section. The proposed CRA statement of an applicant for a national bank charter may be the basis for the denial of the application.

INTERPRETATIONS

§ 25.101 National banks performing limited services.

In response to its proposed regulation, 12 CFR 25, to implement the Community Reinvestment Act ("CRA"), the Comptroller of the Currency received several inquiries from institutions that, although they are chartered as banks, do not perform commercial or retail banking services. These institutions serve solely as correspondent banks, or as trust companies, or as clearing agents, and they do not extend credit to the public for their own account. The Comptroller concludes that the CRA is not intended to cover these institutions. It is the purpose of the CRA to require the Comptroller to encourage national banks to meet the credit needs of their local communities. To this end, the Comptroller must assess banks' records of performance and take those records into account in acting on certain applications affecting the banks. The Comptroller believes that these provisions were intended to cover all banks that are in the business of extending credit to the public, including both "wholesale" and "retail" banks. The lending activities of these banks affect the economic health of the communities in which they are chartered. However, the Comptroller believes it would be pointless to encourage or to assess the credit granting record of institutions that are not organized to grant credit to the public in the ordinary course of business, other than as an incident to their specialized operations. Accordingly the term "national bank" as used in the Comptroller's regulation, part 25 (12 CFR Part 25), does not include banks that engage solely in correspondent banking business, trust company business, or acting as a clearing agent.

Dated: October 5, 1978.

JOHN G. HEIMANN,
Comptroller of the Currency.

[6210-01-M]

[Docket No. R-0139; R-0181; Regulation BB]

PART 228—COMMUNITY REINVESTMENT

Sec.

228.1 Authority.
228.2 Purposes.
228.3 Delineation of community.
228.4 Community Reinvestment Act statement.
228.5 Files of public comments and recent CRA statements.
228.6 Public notice.
228.7 Assessing the record of performance.
228.8 Effect on applications.

Sec.
228.100 Applicability of the Community Reinvestment Act to certain special purpose banks.

AUTHORITY: Community Reinvestment Act of 1977 (title VIII, Pub. L. 95-128, 91 Stat. 1147 (12 U.S.C. 2901 et seq.)); 12 U.S.C. 321, 325, 1814, 1816, 1828, 1842.

§ 228.1 Authority.

The Board of Governors of the Federal Reserve System issues this part to implement the Community Reinvestment Act (12 U.S.C. 2901 et seq.). The regulations comprising this part are issued under the authority of the Community Reinvestment Act and under the provisions of the United States Code authorizing the Board to conduct examinations of State-chartered banks that are members of the Federal Reserve System (12 U.S.C. 325), to conduct examinations of bank holding companies and their subsidiaries (12 U.S.C. 1844), and to consider applications for domestic branches by State member banks (12 U.S.C. 321), for Federal deposit insurance in connection with applications for membership in the Federal Reserve System by State banks (12 U.S.C. 321, 1814, 1816), for merger in which the resulting bank would be a State member bank (12 U.S.C. 1828), and for formation of, acquisitions of banks by, and mergers of, bank holding companies (12 U.S.C. 1842).

§ 228.2 Purposes.

The purposes of this regulation are to encourage State member banks to help meet the credit needs of their local community or communities; to provide guidance to State member banks as to how the Board will assess the records of State member banks in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those banks; and to provide for taking into account those records in connection with certain applications.

§ 228.3 Delineation of community.

(a) Each State member bank shall prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps shall be used to portray community delineations. The reasonableness of the delineations will be reviewed by Federal Reserve System examiners.

(b) A local community consists of the contiguous areas surrounding each office or group of offices, including any low- and moderate-income neighborhoods in those areas. More than one office of a State member bank may be included in the same local community. Unless the Board determines otherwise, a community delineation need not take account of an off-premises electronic facility that receives deposits for more than one depository institution. In preparing its delineation, a bank may use any one of the three bases set forth below.

(1) Existing boundaries such as those of standard metropolitan statistical areas (SMSA's) or counties in which the bank's office or offices are located may be used to delineate a local community. Where appropriate, portions of adjacent areas should be included. The bank may make adjustments in the case of areas divided by State borders or significant geographic barriers, or areas that are extremely large or of unusual configuration. In addition, a small bank may delineate those portions of SMSA's or counties it reasonably may be expected to serve.

(2) A bank may use its effective lending territory, which is defined as that local area or areas around each office or group of offices where it makes a substantial portion of its loans and all other areas equidistant from its offices as those areas. Adjustments such as those indicated in paragraph (b)(1) of this section may be made.

(3) A bank may use any other reasonably delineated local area that meets the purposes of the Community Reinvestment Act (CRA) and does not exclude low- and moderate-income neighborhoods.

§ 228.4 Community Reinvestment Act statement.

(a) Within 90 days after the effective date of this subpart, the board of directors of each State member bank shall adopt a Community Reinvestment Act (CRA) statement for each delineated local community.

(b) Each CRA statement shall include at least the following:

(1) The delineation of the local community;

(2) A list of specific types of credit within certain categories, such as residential loans for 1- to 4-dwelling units, residential loans for 5 dwelling units and over, housing rehabilitation loans, home improvement loans, small business loans, farm loans, community development loans, commerical loans, and consumer loans, that the bank is prepared to extend within the local community; and

(3) A copy of the Community Reinvestment Act notice provided for in § 228.6.

(c) Each State member bank is encouraged to include the following in each CRA statement:

(1) A description of how its current efforts, including special credit-related programs, help to meet community credit needs;

(2) A periodic report regarding its record of helping to meet community credit needs; and

(3) A description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.

(d) Each State member bank's board of directors shall review each CRA statement at least annually and shall act upon any material change made in the interim at its first regular meeting after the change. Such actions shall be noted in its minutes.

(e) Each current CRA statement shall be readily available for public inspection:

(1) At the head office of the bank; and

(2) At each office of the bank in the local community delineated in the statement, except off-premises electronic deposit facilities.

(f) Copies of each current CRA statement shall be provided to the public upon request. A State member bank may charge a fee not to exceed the cost of reproduction.

§ 228.5 Files of public comments and recent CRA statements.

(a) Each State member bank shall maintain files that are readily available for public inspection consisting of:

(1) Any signed, written comments received from the public within the past 2 years that specifically relate to any CRA statement or to the bank's performance in helping to meet the credit needs of its community or communities;

(2) Any responses to the comments that the bank wishes to make; and

(3) Any CRA statements in effect during the past 2 years.

(b) These files shall not contain any comments or responses that reflect adversely upon the good name or reputation of any person other than the bank, or publication of which would violate specific provisions of law.

(c) These files shall be maintained by each State member bank as follows:

(1) All materials at the head office; and

(2) Materials relating to each local community, at a designated office in that community.

§ 228.6 Public notice.

Within 90 days after the effective date of this part, each State member bank shall provide, in the public lobby of each if its offices other than off-premises electronic deposit facilities, the public notice set forth below. Bracketed material shall be used only by banks having more than one local community. The last item in this notice shall be included only if the

bank is a subsidiary of a holding company that is not prevented by statute from acquiring additional banks.

COMMUNITY REINVESTMENT ACT NOTICE

The Federal Community Reinvestment Act (CRA) requires the Federal Reserve Board to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the Board decides on certain applications submitted by us. Your involvement is encouraged.

- You should know that:
- You may obtain our current CRA statement for this community in this office. [Current CRA statements for other communities served by us are available at our head office, located at (address).]

You may send signed, written comments about our CRA statement[s] or our performance in helping to meet community credit needs to (title and address of State member bank official) and to Community Reinvestment Officer, Federal Reserve Bank of ——— (address). Your letter, together with any response by us, may be made public.

- You may look at a file of all signed, written comments received by us within the past 2 years, any responses we have made to the comments, and all CRA statements in effect during the past 2 years at our office located at (address). [You also may look at the file about this community at (name and address of designated office).]
- You may ask to look at any comments received by the Federal Reserve Bank of ———.
- You also may request from the Federal Reserve Bank of ——— an announcement of applications covered by the CRA filed with the Federal Reserve System.
- We are a subsidiary of (name of holding company), a bank holding company. Applications filed by bank holding companies that are covered by the CRA are included in the Federal Reserve announcement of applications referred to in the previous paragraph.

§ 228.7 Assessing the record of performance.

In connection with its examination of a State member bank, the Board shall assess the record of performance of the bank in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. The Board will review the bank's CRA statement(s) and any signed, written comments retained by the State member bank or the Federal Reserve Bank. In addition, the Board will consider the following factors in assessing a bank's record of performance:

(a) Activities conducted by the State member bank to ascertain the credit needs of its community, including the extent of the bank's efforts to communicate with members of its community regarding the credit services being provided by the bank;

(b) The extent of the State member bank's marketing and special credit-related programs to make members of the community aware of the credit services offered by the bank;

(c) The extent of participation by the State member bank's board of directors in formulating the bank's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act;

(d) Any practices intended to discourage applications for types of credit set forth in the State member bank's CRA statement(s);

(e) The geographic distribution of the State member bank's credit extensions, credit applications, and credit denials;

(f) Evidence of prohibited discriminatory or other illegal credit practices;

(g) The State member bank's record of opening and closing offices and providing services at offices;

(h) The State member bank's participation, including investments, in local community development and redevelopment projects or programs;

(i) The State member bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community;

(j) The State member bank's participation in governmentally-insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms;

(k) The State member bank's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions and other factors; and

(l) Other factors that, in the Board's judgment, reasonably bear upon the extent to which a State member bank is helping to meet the credit needs of its entire community.

§ 228.8 Effect on Applications.

(a) In considering any application

(1) For membership in the Federal Reserve System where membership would confer Federal deposit insurance on a bank,

(2) By a State member bank for the establishment of a domestic branch or other facility that would be authorized to receive deposits,

(3) By a State member bank for the relocation of a domestic branch,

(4) For merger, consolidation, acquisition of assets or assumption of liabilities if the acquiring, assuming, or resulting bank is to a State member bank,

(5) To become a bank holding company, and

(6) By a bank holding company to acquire ownership or control of shares or assets of a bank, or to merge or consolidate with any other bank holding company,

the Board will take into account, among other factors it considers, the record of performance in meeting the credit needs of its entire community of each applicant bank, each subsidiary bank of an applicant bank holding company, and each proposed subsidiary bank of an applicant under section 3 of the Bank Holding Company Act (12 U.S.C. 1842) that has an officer, director, employee, or significant stockholder associated with the applicant. Those records of performance may be the basis for denying the application.

(b) In the case of each application for membership that would confer Federal deposit insurance, each application by a State member bank, and each application by a bank holding company with a State bank subsidiary, the Board will consider any views expressed by the respective State bank supervisors as to whether the State-chartered banks involved have been helping to meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those banks.

(c) At the request of an applicant, the Board will include in its consideration of an application the record of performance of nonbanking subsidiaries of bank holding companies in helping to meet the credit needs of the communities served by affiliated applicant banks or by subsidiary and proposed subsidiary banks of applicants under section 3 of the Bank Holding Company Act (12 U.S.C. 1842).

(d) At the time an application for membership that would confer Federal deposit insurance is made, the proposed State member bank shall submit to the Board a proposed CRA statement conforming to the requirements of § 228.4.

§ 228.100 Applicability of the Community Reinvestment Act to certain special purpose banks.

In response to its proposed regulation BB to implement the Community Reinvestment Act ("CRA") (12 U.S.C. 2901-05) the Board received several inquiries from institutions that, although they are chartered as banks, do not perform commercial or retail banking services. These institutions serve solely as correspondent banks, or as trust companies, or as clearing agents, and they do not extend credit to the public for their own account. The Board concludes that the CRA is not intended to cover these institutions. It is the purpose of the CRA to require the Board to encourage banks to meet the credit needs of their local communities. To this end, the Board must assess banks' records of performance and take those records into account in acting on certain applications affecting the banks. The Board be-

lieves that these provisions were intended to cover all banks that are in the business of extending credit to the public including both "wholesale" and "retail" banks. The lending activities of these banks affect the economic health of the communities in which they are chartered. However, the Board believes it would be pointless to encourage or to assess the credit-granting record of institutions that are not organized to grant credit to the public in the ordinary course of business, other than as an incident to their specialized operations. Accordingly the term "State member bank" as used in the Board's Regulation BB (12 CFR 228) does not include banks that engage solely in correspondent banking business, trust company business, or acting as a clearing agent.

By order of the Board of Governors, effective November 6, 1978.

GRIFFITH L. GARWOOD,
Deputy Secretary of the Board.

[6714-01-M]

PART 345—COMMUNITY REINVESTMENT

REGULATIONS

Sec.
345.1 Authority.
345.2 Purposes.
345.3 Delineation of community.
345.4 Community Reinvestment Act Statement.
345.5 Files of public comments and recent CRA statements.
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345.7 Assessing the record of performance.
345.8 Effect on applications.

INTERPRETATIONS

345.101 Special purpose banks and trust companies not engaged in lending.
345.102 Insured branches of foreign banks.

AUTHORITY: Community Reinvestment Act of 1977 (title VIII of the Housing and Community Development Act of 1977, Pub. L. 95-128; 91 Stat. 1147, et seq. (12 U.S.C. 2901 note)).

§ 345.1 Authority.

The provisions of this part 345 issued under the Community Reinvestment Act of 1977 (title VIII of the Housing and Community Development Act of 1977, Pub. L. No. 95-128; 91 Stat. 1147, et seq.).

§ 345.2 Purposes.

The purposes of this regulation are to encourage insured State nonmember banks to help meet the credit needs of their local community or communities; to provide guidance to banks as to how the FDIC will assess the records of insured State nonmember banks in satisfying their continuing and affirmative obligations to help meet the credit needs of the local communities, including low- and moderate-income neighborhoods, consistent with safe and sound operation of those banks; and to provide for taking into account those records in connection with certain applications.

§ 345.3 Delineation of community.

(a) Each insured State nonmember bank shall prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps shall be used to portray community delineations. The reasonableness of the delineations will be reviewed by FDIC examiners.

(b) A local community consists of the contiguous areas surrounding each office or group of offices, including any low- and moderate-income neighborhoods in those areas. More than one office of a bank may be included in the same local community. Unless the FDIC determines otherwise, a community delineation need not take account of an off-premises electronic facility that receives deposits for more than one depository institution. In preparing its delineation, a bank may use any one of the three bases set forth below:

(1) Existing boundaries such as those of standard metropolitan statistical areas (SMSA's) or counties in which the bank's office or offices are located may be used to delineate a local community. Where appropriate, portions of adjacent areas should be included. The bank may make adjustments in the case of areas divided by State borders or significant geographic barriers, or areas that are extremely large or of unusual configuration. In addition, a small bank may delineate those portions of SMSA's or counties it reasonably may be expected to serve.

(2) A bank may use its effective lending territory, which is defined as that local area or areas around each office or group of offices where it makes a substantial portion of its loans and all other areas equidistant from its offices as those areas. Adjustments such as those indicated in paragraph (b)(1) of this section may be made.

(3) A bank may use any other reasonably delineated local area that meets the purposes of the Community Reinvestment Act (CRA) and does not exclude low- and moderate-income neighborhoods.

§ 345.4 Community Reinvestment Act statement.

(a) Within 90 days after the effective date of this part, the board of directors of each insured State nonmember bank shall adopt a Community Reinvestment Act (CRA) statement for each delineated local community.

(b) Each CRA Statement shall include at least the following:

(1) The delineation of the local community;

(2) A list of specific types of credit within certain categories, such as residential loans for one to four dwelling units, residential loans for 5 dwelling units and over, housing rehabilitation loans, home improvement loans, small business loans, farm loans, community development loans, commercial loans, and consumer loans, that the bank is prepared to extend within the local community; and

(3) A copy of the Community Reinvestment Act notice provided for in § 345.6 below.

(c) Each bank is encouraged to include the following in each CRA statement:

(1) A description of how its current efforts, including special credit-related programs, help to meet community credit needs;

(2) A periodic report regarding its record of helping to meet community credit needs; and

(3) A description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.

(d) Each bank's board of directors shall review each CRA statement at least annually and shall act upon any material change made in the interim at its first regular meeting after the change. Such actions shall be noted in its minutes.

(e) Each current CRA statement shall be readily available for public inspection:

(1) At the home office of the bank; and

(2) At each office of the bank in the local community delineated in the statement, except off-premises electronic deposit facilities.

(f) Copies of each current CRA statement shall be provided to the public upon request. A bank may charge a fee not to exceed the cost of reproduction.

§ 345.5 Files of public comments and recent CRA statements.

(a) Each insured State nonmember bank shall maintain files that are readily available for public inspection consisting of:

(1) Any signed, written comments received from the public within the past 2 years that specifically relate to any CRA statement or to the bank's performance in helping to meet the credit needs of its community or communities;

(2) Any responses to the comments that the bank wishes to make;

(3) Any CRA statements in effect during the past 2 years.

(b) These files shall not contain any comments or responses that reflect adversely upon the good name or reputa-

tion of any person other than the bank, or publication of which would violate specific provisions of law.

(c) These files shall be maintained by each bank as follows:

(1) All materials at the home office; and

(2) Materials relating to each local community, at a designated office in that community.

§ 345.6 Public notice.

Within 90 days after the effective date of this part, each insured State nonmember bank shall provide, in the public lobby of each of its offices other than off-premises electronic deposit facilities, the public notice set forth below. Bracketed material shall be used only by banks having more than one local community. The last item in this notice shall be included only if the bank is a subsidiary of a holding company that is not prevented by statute from acquiring additional banks.

COMMUNITY REINVESTMENT ACT NOTICE

The Federal Community Reinvestment Act (CRA) requires the FDIC to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the FDIC decides on certain applications submitted by us. Your involvement is encouraged.

You should know that:

• You may obtain our current CRA statements for this community in this office. [Current CRA statements for other communities served by us are available at our head office, located at ———.]

• You may send signed, written comments about our CRA statements[s] or our performance in helping to meet community credit needs to (title and address of bank official) and to (title and address of the FDIC's regional office). Your letter, together with any responses by us, may be made public.

• You may look at a file of all signed, written comments received by us within the past 2 years, any responses we have made to the comments, and all CRA statements in effect during the past 2 years at our office located at (address). [You also may look at the file about this community at (name and address of designated office).]

• You may ask to look at any comments received by (the FDIC's regional office) at (address).

• You also may request from the Federal Deposit Insurance Corporation, 550 17th Street NW., Washington, D.C. 20429, an announcement of applications covered by the CRA filed with the FDIC.

• We are a subsidiary of (name of holding company), a bank holding company. You may request from the Federal Reserve bank of ——— (address) an announcement of applications covered by the CRA filed by bank holding companies.

§ 345.7 Assessing the record of performance.

In connection with its examination of a bank, the FDIC shall assess the record of performance of the bank in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. The FDIC will review the bank's CRA statement(s) and any signed, written comments retained by the bank or the FDIC. In addition, the FDIC will consider the following factors in assessing a bank's record of performance:

(a) Activities conducted by the bank to ascertain the credit needs of its community, including the extent of the bank's efforts to communicate with members of its community regarding the credit services being provided by the bank;

(b) The extent of the bank's marketing and special credit-related programs to make members of the community aware of the credit services offered by the bank;

(c) The extent of participation by the bank's board of directors in formulating the bank's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act;

(d) Any practices intended to discourage applications for types of credit set forth in the bank's CRA statement(s);

(e) The geographic distribution of the bank's credit extensions, credit applications, and credit denials;

(f) Evidence of prohibited discriminatory or other illegal credit practices;

(g) The bank's record of opening and closing offices and providing services at offices;

(h) The bank's participation, including investments, in local community development and redevelopment projects or programs;

(i) The bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community;

(j) The bank's participation in governmentally-insured, guarantee, or subsidized loan programs for housing, small businesses, or small farms;

(k) The bank's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions and other factors; and

(l) Other factors that, in the FDIC's judgment, reasonably bear upon the extent to which a bank is helping to meet the credit needs of its entire community.

§ 345.8 Effect on applications.

(a) The assessment of the record of performance under § 345.7 shall be taken into account in connection with applications to the FDIC for: (1) Deposit insurance in connection with a newly chartered bank; (2) approval of an establishment of a domestic branch or other facility with the ability to accept deposits for which an application is required; (3) approval of a relocation of the main office or a branch office; and (4) approval of a merger, consolidation, acquisition of assets, or assumption of liabilities.

(b) The assessment of a bank's record of performance in helping to meet the credit needs of its community may be the basis for denial of an application cited in paragraph (a).

(c) Specific applications.

(1) In considering an application where a State member or national bank will convert into, merge or consolidate with, or have its assets acquired or liabilities assumed by a State nonmember bank, the FDIC will take into account any views expressed by State member or national bank's present State and Federal supervisors.

(2) In considering an application for deposit insurance, the FDIC will take into account the bank's CRA statement.

INTERPRETATIONS

§ 345.101 Special purpose banks and trust companies not engaged in lending.

In response to its proposed regulation part 345 to implement the Community Reinvestment Act ("CRA") (12 U.S.C. 2910-05), the Corporation received several inquiries from institutions that, although they are chartered as banks, do not perform commercial or retail banking services. These institutions serve solely as correspondent banks, or as trust companies, or as clearing agents, and they do not extend credit to the public for their own account. The Corporation conlcudes that the CRA is not intended to cover these institutions. It is the purpose of the CRA to require the Corporation to encourage banks to meet the credit needs of their local communities. To this end, the Corporation must assess banks' records of performance and take those records into account in acting on certain applications affecting the banks. The Corporation believes that these provisions were intended to cover all banks that are in the business of extending credit to the public including both "wholesale" and "retail" banks. The lending activities of these banks affect the economic health of the communities in which they are chartered. However, the Corporation believes it would be pointless to encourage or to assess the credit granting record of institutions that are not organized to grant credit to the public in the ordinary course of business, other than as an incident to their specialized operations. Accordingly the term "insured State nonmember bank" as used in the Corporation's regulation part 345 (12 CFR part 345) does not include banks that

engage solely in correspondent banking business, trust company business, or acting as a clearing agent.

§ 345.102 Insured branches of foreign banks.

The Community Reinvestment Act, by its terms, applies to all "insured banks" as that term is defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813). The recently enacted International Banking Act, among other things, amends section 3 of the Federal Deposit Insurance Act to include within the definition of the term "insured bank" any foreign bank having a branch, any deposits in which are insured by the Federal Deposit Insurance Corporation. Accordingly, the Community Reinvestment Act requires the Corporation, in the case of an insured State branch of a foreign bank, to assess the bank's record of meeting the credit needs of its entire community, and to take that record into account in acting upon certain applications that may be filed by any such foreign bank. In light of the purposes of the Community Reinvestment Act, it would appear that the record of the foreign bank branches in the United States should be the record that should be assessed by the Corporation and taken into account in the case of applications, rather than the record of the foreign bank as a whole in meeting the credit needs of its communities abroad. In recognition of the anomaly of assessing and taking into account a foreign bank's foreign operations in meeting the needs of its foreign community, the Corporation will consider only the foreign bank's U.S. operations. Accordingly, the Corporation's regulation part 345, in the case of foreign banks that are "insured banks" within the meaning of section 3 of the Federal Deposit Insurance Act, should be construed as applying only to the insured branches of the foreign banks in the United States. Thus, where § 345.3(a) requires each insured State nonmember bank to prepare and at least annually review a delineation of its local community, in the case of a foreign bank that is an "insured bank", the community or communities delineated should relate to the insured branch or branches within the United States. Similarly, the phrase "office of group of offices" in § 345.3(b) refers to insured branches located within the United States and the phrase "effective lending territory" refers to areas or to an area geographically within the United States. Indeed, the phrase "community" as it appears throughout the regulation is intended to refer to a local geographical area within the boundaries of the United States. In the case of foreign banks that are "insured banks", the requirement in § 345.4 that a bank's board of directors adopt a CRA statement would apply to any officer or local managing board which directs the operations of the insured branch or branches rather than the board of directors itself. Similarly, the requirement in § 345.4(d) for board of directors review of CRA statements and approval of changes may, in the case of foreign banks that are "insured banks" may be satisfied by any officer or local managing board rather than the board of directors itself. In the case of a foreign bank, copies of CRA statements, signed written comments from the public, in response thereto, need not be retained in the head office of the foreign bank, nor would the public notice required by § 345.6 be provided at any office outside of the United States.

By order of the Board of Directors, October 5, 1978.

FEDERAL DEPOSIT INSURANCE CORPORATION.

ALAN R. MILLER,
Executive Secretary.

[6720-01-M]

PART 563e—COMMUNITY REINVESTMENT

Sec.
563e.1 Authority.
563e.2 Purposes.
563e.3 Delineation of community.
563e.4 Community Reinvestment Act statement.
563e.5 Files of public comments and recent CRA statements.
563e.6 Public notice.
563e.7 Assessing the record of performance.
563e.8 Effect on applications.

AUTHORITY: Community Reinvestment Act of 1977 (title VIII of the Housing and Community Development Act of 1977, Pub. L. 95-128; 91 Stat. 1147, et seq. 12 U.S.C. 2901 et seq.); sec. 17, 47 Stat. 736, as amended (12 U.S.C. 1437); secs. 402, 403, 407, and 408, 48 Stat. 1256, 1257, 1260, and 1260a as amended (12 U.S.C. 1725, 1726, 1730, 1730a); sec. 5, 48 Stat. 132, as amended (12 U.S.C. 1464); Reorg. Plan No. 3 of 1947, 12 FR 4981, 3 CFR 1943-48 (Comp. 1071).

§ 563e.1 Authority.

The provisions of this part 563e are issued under the Community Reinvestment Act of 1977 (title VIII of the Housing and Community Development Act of 1977, Pub. L. 95-128, 91 Stat. 1147, et seq.); and under sections 17, 47 Stat. 736, as amended (12 U.S.C. 1437); secs. 402, 403, 407, and 408, 48 Stat. 1256, 1257, 1260, and 1260a as amended (12 U.S.C. 1725, 1726, 1730, 1730a); sec. 5, 48 Stat. 132, as amended (12 U.S.C. 1464); Reorg. Plan No. 3 of 1947, 12 FR 4981, 3 CFR 1943-48 Com. 1071).

§ 563e.2 Purposes.

The purposes of this regulation are to encourage insured institutions to help meet the credit needs of their local community or communities; to provide guidance to institutions as to how the Board will assess the records of institutions in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions; and to provide for taking into account those records in connection with certain applications.

§ 563e.3 Delineation of community.

(a) Each insured institution shall prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- and moderate-income neighborhoods. Maps shall be used to portray community delineations. The reasonableness of the delineations will be reviewed by the Board's examiners.

(b) A local community consists of the contiguous areas surrounding each office or group of offices, including any low- and moderate-income neighborhoods in those areas. More than one office of an institution may be included in the same local community. Unless the Board determines otherwise, a community delineation need not take account of an off-premises electronic facility that receives deposits for more than one depository institution. In preparing its delineation, an institution may use any one of the three bases set forth below.

(1) Existing boundaries such as those of standard metropolitan statistical areas (SMSA's) or counties in which the institution's office or offices are located may be used to delineate a local community. Where appropriate, portions of adjacent areas should be included. The institution may make adjustments in the case of areas divided by State borders or significant geographic barriers, or areas that are extremely large or of unusual configuration. In addition, a small institution may delineate those portions of SMSA's or counties it reasonably may be expected to serve.

(2) An institution may use its effective lending territory, which is defined as that local area or areas around each office or group of offices where it makes a substantial portion of its loans and all other areas equidistant from its offices as those areas. Adjustments such as those indicated in paragraph (b)(1) of this section may be made.

(3) An institution may use any other reasonably delineated local area that meets the purposes of the Community Reinvestment Act (CRA) and does not exclude low- and moderate-income neighborhoods.

§ 563e.4 Community Reinvestment Act statement.

(a) Within 90 days after the effective date of this part, the board of directors of each institution shall adopt a Community Reinvestment Act (CRA) statement for each delineated local community.

(b) Each CRA statement shall include at least the following:

(1) The delineation of the local community;

(2) A list of specific types of credit within certain categories, such as residential loans for 1- to 4-family dwelling units, residential loans for 5 dwelling units and over, housing rehabilitation loans, home improvement loans, small business loans, farm loans, community development loans, commercial loans, and consumer loans, that the institution is prepared to extend within the local community; and

(3) A copy of the Community Reinvestment Act notice provided for in § 563e.6.

(c) Each institution is encouraged to include the following in each CRA statement:

(1) A description of how its current efforts, including special credit-related programs, help to meet community credit needs;

(2) A periodic report regarding its record of helping to meet community credit needs; and

(3) A description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.

(d) Each institution's board of directors shall review each CRA statement at least annually and shall act upon any material change made in the interim at its first regular meeting after the change. Such actions shall be noted in its minutes.

(e) Each current CRA statement shall be readily available for public inspection:

(1) At the home office of the institution; and

(2) At each office of the institution in the local community delineated in the statement, except off-premises electronic deposit facilities.

(f) Copies of each current CRA statement shall be provided to the public upon request. An institution may charge a fee not to exceed the cost of reproduction.

§ 563e.5 Files of public comments and recent CRA statements.

(a) Each institution shall maintain files that are readily available for public inspection consisting of:

(1) Any signed, written comments received from the public within the past 2 years that specifically relate to any CRA statement or to the institution's performance in helping to meet the credit needs of its community or communities;

(2) Any response to the comments that the institution wishes to make; and

(3) Any CRA statements in effect during the past 2 years.

(b) These files shall not contain any comments or responses that reflect adversely upon the good name or reputation of any persons other than the institution, or publication of which would violate specific provisions of law.

(c) These files shall be maintained by each institution as follows:

(1) All materials at the home office; and

(2) Those materials relating to each local community at a designated office in that community.

§ 563e.6 Public notice.

Within 90 days after the effective date of this part, each institution shall provide, in the public lobby of each of its offices other than off-premises electronic deposit facilities, the public notice set forth below. Bracketed material shall be used only by institutions having more than one local community.

COMMUNITY REINVESTMENT ACT NOTICE

The Federal Community Reinvestment Act (CRA) requires the Federal Home Loan Bank Board to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when deciding on certain applications submitted by us. Your involvement is encouraged.

You may obtain our current CRA statement for this community in this office. [Current CRA statements for other communities served by us are available at our home office, located at ————.]

You may send signed, written comments about our CRA statement[s] or our performance in helping to meet community credit needs to (title and address of institution official) and to (title of officer), Federal Home Loan Bank of ———— (address). Your letter, together with any response by us, may be made public.

You may look at a file of all signed, written comments received by us within the past 2 years, any responses we have made to the comments, and all CRA statements in effect during the past 2 years at our office located at (address). [You also may look at the file about this community at (name and address of designated office).]

You may ask to look at any comments received by the Federal Home Loan Bank of ————.

You also may request from the Federal Home Loan Bank of ———— an announcement of applications covered by the CRA filed with the Federal Home Loan Bank Board.

§ 563e.7 Assessing the record of performance.

In connection with its examination of an institution, the Board shall assess the record of performance of the institution in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. The Board will review the institution's CRA statement(s) and any signed, written comments retained by the institution or the agency. In addition, the Board will consider the following factors in assessing an institution's record of performance:

(a) Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution;

(b) The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution;

(c) The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act;

(d) Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement(s);

(e) The geographic distribution of the institution's credit extensions, credit applications and credit denials;

(f) Evidence of prohibited discriminatory or other illegal credit practices;

(g) The institution's record of opening and closing offices and providing services at offices;

(h) The institution's participation, including investments, in local community development and redevelopment projects or programs;

(i) The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community;

(j) The institution's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms;

(k) The institution's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions and other factors; and

(l) Other factors that, in the Board's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

§ 563e.8 Effect on applications.

(a) Assessments under this part shall be taken into account in determining whether to grant charters, deposit insurance, branches and other deposit

facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and savings and loan holding company acquisitions. Assessment of an institution's record of performance may be the basis for denying an application.

(b) The Board will take into account any views expressed by State-chartered applicants' State supervisory authorities with regard to whether applicants are helping to meet the credit needs of their communities.

(c) The Board may consider the credit-granting record of any financial subsidiaries of savings and loan holding companies when such holding companies submit to the Board applications listed under paragraph (a) of this section.

By the Federal Home Loan Bank Board.

J. J. FINN,
Secretary.

OCTOBER 3, 1978.

[FR Doc. 78-28852 Filed 10-10-78; 10:55 am]

CRA ASSESSMENT FACTORS

The four regulatory agencies have listed in their regulations 12 basic factors that examiners must use to assess a lending institution's CRA performance. This is a good "check list" for community organizations to use to pose the most basic questions about lender responsibility to their community:

1. The lender's efforts to ascertain the community's credit needs.

   What efforts has the bank or S&L made to understand community credit needs? Has it met with community organizations? With your group? Has it contacted the city? With whom has it met? Is communication two-way?

2. The lender's marketing and special credit-related programs.

   How aggressively is the lender trying to market loans? Has it sent letters to real estate brokers? What other outreach is it trying? Has it instituted credit-related services such as prepurchase counseling or the assignment of bilingual lending officers to meet a specific community need?

3. Participation by the lender's Board of Directors in CRA policies and performance.

   What role has the lender's Board played in ascertaining credit needs? Is it possible to have a meeting with a board member? Do they respond to letters or inquiries?

4. Practices by the lender to discourage applications for credit.

   Does the lender offer applications at every branch? If not, how far must you go to apply for a loan? When compared to competing institutions, are terms for certain loans excessively harsh (large downpayments, high interest rates, large application fees)?

5. The geographic distribution of the institution's loans.

   From Home Mortgage Disclosure Act data, is the lender failing to serve certain lower income or minority neighborhoods?

6. <u>Evidence of illegal or discriminatory credit practices.</u>

Can you establish a lending pattern which shows that an institution discriminates against minorities, the elderly or women? Do you have evidence of practices prohibited by fair lending regulations and laws?

7. <u>The lender's record of opening and closing offices.</u>

If the institution has opened a series of new branches, have they all been in the suburbs? Has the lender also recently closed an office in the central city? Has it moved all but its deposit operations out of a central city office?

8. <u>The lender's participation in community development projects or programs.</u>

How active is the lender in such programs as Neighborhood Housing Services projects, CDBG rehab loan programs, Community Development Corporations, Local Development Corporations, and local neighborhood preservation efforts. Has it declined to cooperate with community organizations in good projects?

9. <u>The lender's origination of: residential mortgage loans, housing rehab loans, home improvement loans, small business loans, small farm loans.</u>

Beyond using Home Mortgage Disclosure Act data, do you have evidence from interviewing small businesses or farmers about credit availability?

10. <u>The lender's participation in government-supported loans for homes, small businesses or farms.</u>

Does HMDA data show a lack of participation in government-supported loans? What does the CRA Statement show?

11. <u>The lender's ability to meet community credit needs based on its size and local conditions.</u>

Are large downtown institutions making an effort to lend in your neighborhood?

12. <u>Other factors which bear on the lender's performance in the community.</u>

Has the lender contributed to displacement? What efforts has it made to seek out and offer loans to existing residents?

The Commonwealth of Massachusetts
Office of the Commissioner of Banks
State Office Building, Government Center
100 Cambridge Street, Boston 02202

EDWARD J. KING
GOVERNOR
GERALD T. MULLIGAN
COMMISSIONER

ASSESSING A STATE-CHARTERED INSTITUTION'S RECORD OF PERFORMANCE WITH REGARD TO COMMUNITY REINVESTMENT

In connection with its examination of a State Chartered Institution ("S.C.I."), the Office of Commissioner of Banks ("O.C.B.") shall assess the record of performance of the S.C.I. in helping to meet the credit needs of its entire community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the S.C.I. The O.C.B. will review the S.C.I.'s C.R.A. statement (s) and signed, written comments retained by the S.C.I. or the O.C.B. In addition, the O.C.B. will consider the following factors in assessing a S.C.I.'s record of performance.

(a) activities conducted by the S.C.I. to ascertain the credit needs of its community, including the extent of the S.C.I.'s efforts to communicate with members of its community regarding the credit services being provided by the S.C.I.;

(b) the extent of the S.C.I.'s marketing and special credit-related programs to make members of the community aware of the credit services offered by the S.C.I.;

(c) the extent of participation by the S.C.I.'s board of directors/trustees in formulating the S.C.I.'s policies and reviewing its performance with respect to the purposes of the C.R.A.;

(d) any practices intended to discourage applications for types of credit set forth in the S.C.I.'s C.R.A. statement(s);

(e) the geographic distribution of the S.C.I.'s credit extensions, credit applications, and credit denials;

(f) evidence of prohibited discriminatory or other illegal credit practices;

(g) the S.C.I.'s record of opening and closing offices and providing services at offices;

(h) the S.C.I.'s participation, including investments, in local community development and redevelopment projects or programs;

(i) the S.C.I.'s origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community;

(j) the S.C.I.'s participation in governmentally-insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms;

(k) the S.C.I.'s ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions and other factors; and

(l) other factors that, in the O.C.B.'s judgment reasonably bear upon the extent to which a S.C.I. is helping to meet the credit needs of its entire community.

Effect on Applications

(a) In considering an application for (1) the establishment of a domestic branch or other facility with the ability to accept deposits, (2) the relocation of the main office or a branch office, or (3) a merger or consolidation with or the acquisiton of assets or assumption of liabilities of another S.C.I. or federally-insured bank, the O.C.B. will take into account, among other factors, the applicant's record of performance.

(b) In considering an application described in paragraph (a) of this section, the O.C.B. will take into account, among other factors, any views expressed by federal supervisors of depository institutions or other interested parties, which are submitted to the O.C.B.

(c) A S.C.I.'s record of performance may be the basis for the denial of an application described in paragraph (a) of this section. The proposed C.R.A. statement of an applicant for a state charter may be the basis for the denial of the application.

The Commonwealth of Massachusetts
Office of the Commissioner of Banks
State Office Building, Government Center
100 Cambridge Street, Boston 02202

EDWARD J. KING
GOVERNOR

GERALD T. MULLIGAN
COMMISSIONER

March 6, 1981

To The Chief Executive Officer Of The Institution Addressed:

As a result of several compliance examinations completed by staff and of several community contested branch or merger applications, it has become apparent that communication between institutions and members of their local communities on credit needs and services is often a problem area. Communication, as encouraged by the community reinvestment standards, may take a variety of forms. The level of effort will clearly vary with the size and capacity of the institutions and the needs of individual communities.

The Division believes, however, that there is one minor step which all institutions could take to promote communication with and to diffuse misperceptions by the local community. That step is to appoint, hire, or otherwise designate a single officer of the institution to have primary responsibility for community development and related matters, such as public comment files and mortgage disclosure, and to act as a liaison on these issues with the community and the Division. In the Division's view, this could serve several purposes. First, it would provide a point of access for individuals and groups that may wish to approach the institution to discuss community reinvestment issues or local community development projects and programs. Second, it would provide the Division with a single contact at each institution to share information on local community development projects and programs. Finally, it would help each institution present a clear, knowledgeable, consistent response to the various issues.

The precise role and responsibilities of the designated officer would vary among institutions. The position at a large urban-based banking institution would likely entail greater activity than that at a small suburban institution. The Division suggests that, regardless of the institution's geographic location, a high level officer with technical expertise, decision-making authority, salary and advancement opportunities commensurate with other high level officers of the institution be designated. The Division is not seeking, or in any way supporting, a purely public relations effort. Rather, it strongly encourages designation of an officer well versed in both the technical and policy aspects of community lending who can creditably represent the institution in this increasingly visible area.

This Division recognizes that present economic conditions may preclude innovative community lending programs. However, conditions may also present an opportune time to afford the expertise of senior lending personnel that may otherwise not be available to participate in the review and updating of the institution's community goals and programs, with particular emphasis on its outreach efforts.

The Division is requesting a positive response to this initiative and believes that designation of a community reinvestment officer would be beneficial without imposing burdens on the institution beyond existing requirements and effective public service. The Division, therefore, requests that each institution designate a community reinvestment officer and on the form provided notify the Division of the designated officer by March 31, 1981. The Division will use this information in conducting its compliance examinations and will make the information available on request to interested members of the public.

Very truly yours,

Gerald T. Mulligan

Gerald T. Mulligan

TEXT OF THE HOME MORTGAGE DISCLOSURE ACT

As amended by Congress (October 1, 1980) and signed into law by President Carter on October 8, 1980.

NOTE: Amendments to HMDA are indicated by larger type and by bracketing.

Title III of Pub. Law 94–200 (approved Dec. 31, 1975); 89 Stat. 1125 *et seq.* 12 U.S.C. 2801–2809.

TITLE III—HOME MORTGAGE DISCLOSURE

Sec.
301. Short Title.
302. Findings and Purposes.
303. Definitions.
304. Maintenance of Records and Public Disclosure.
305. Enforcement.
306. Relation to State Laws.
307. Research and Improved Methods.
308. Study.
309. Effective Date.
310. Termination of Authority.

§ 301. Short Title

This title may be cited as the "Home Mortgage Disclosure Act of 1975."

§ 302. Findings and Purposes

(a) The Congress finds that some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions.

(b) The purpose of this title is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are filling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in their determination of the distribution of public sector investments in a manner designed to improve the private investment environment.

(c) Nothing in this title is intended to, nor shall it be construed to, encourage unsound lending practices or the allocation of credit.

§ 303. Definitions

For purposes of this title—

(1) the term "mortgage loan" means a loan which is secured by residential real property or a home improvement loan;

(2) the term "depository institution" means any commercial bank, savings bank, savings and loan association, building and loan association, or homestead association (including cooperative banks) or credit union which makes federally related mortgage loans as determined by the Board;

(3) the term "Board" means the Board of Governors of the Federal Reserve System; and

(4) the term "Secretary" means the Secretary of Housing and Urban Development.

§ 304. Maintenance of Records and Public Disclosure

(a)(1) Each depository institution which has a home office or branch office located within a standard metropolitan statistical area, as defined by the Office of Management and Budget shall compile and make available, in accordance with regulations of the Board, to the public for inspection and copying at the home office, and at at least one branch office within each standard metropolitan statistical area in which the depository institution has an office the number and total dollar amount of mortgage loans which were (A) originated, or (B) purchased by that institution during each fiscal year (beginning with the last full fiscal

of that institution which immediately preceded the effective date of this title).

(2) The information required to be maintained and made available under paragraph (1) shall also be itemized in order to clearly and conspicuously disclose the following:

"(A) The number and dollar amount for each item referred to in paragraph (1), by census tracts for mortgage loans secured by property located within any county with a population of more than 30,000, within that standard metropolitan statistical area, otherwise, by county, for mortgage loans secured by property located within any other county within that standard metropolitan statistical area."; and

(B) The number and dollar amount for each item referred to in paragraph (1) for all such mortgage loans which are secured by property located outside that standard metropolitan statistical area. For the purpose of this paragraph, a depository institution which maintains offices in more than one standard metropolitan statistical area shall be required to make the information required by this paragraph available at any such office only to the extent that such information relates to mortgage loans which were originated or purchased by an office of that depository institution located in the standard metropolitan statistical area in which the office making such information available is located.

(b) Any item of information relating to mortgage loans required to be maintained under subsection (a) shall be further itemized in order to disclose for each such item—

(1) the number and dollar amount of mortgage loans which are insured under title II of the National Housing Act or under title V of the Housing Act of 1949 or which are guaranteed under chapter 37 of title 38, United States Code;

(2) the number and dollar amount of mortgage loans made to mortgagors who did not, at the time of execution of the mortgage, intend to reside in the property securing the mortgage loan; and

(3) the number and dollar amount of home improvement loans.

(c) Any information required to be compiled and made available under this section shall be maintained and made available for a period of five years after the close of the first year during which such information is required to be maintained and made available.

(3) by adding at the end thereof the following:

"(d) Notwithstanding the provisions of subsection (a)(1), data required to be disclosed under this section for 1980 and thereafter shall be disclosed for each calendar year. Any depository institution which is required to make disclosures under this section but which has been making disclosures on some basis other than a calendar year basis shall make available a separate disclosure statement containing data for any period prior to calendar year 1980 which is not covered by the last full year report prior to the 1980 calendar year report.

"(e) The Board shall prescribe a standard format for the dislosures required under this section.

"(f) The Federal Financial Institutions Examination Council, in consultation with the Secretary, shall implement a system to facilitate access to data required to be disclosed under this section. Such system shall include arrangements for a central depository of data in each standard metropolitan statistical area. Disclosure statements shall be made available to the public for inspection and copying at such central depository of data for all depository institutions which are required to disclose information under this section (or which are exempted pursuant to section 306(b)) and which have a home office or branch office within such standard metropolitan statistical area.".

§ 305. Enforcement

(a) The Board shall prescribe such regulations as may be necessary to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary and proper to effectuate the purposes of this title, and prevent circumvention or evasion thereof, or to facilitate compliance therewith.

(b) Compliance with the requirements imposed under this title shall be enforced under—

(1) section 8 of the Federal Deposit Insurance Act, in the case of—

(A) national banks, by the Comptroller of the Currency;

(B) member banks of the Federal Reserve System, other than national banks, by the Board:

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System) and mutual savings banks as defined in section 3(f) of the Federal Deposit Insurance Act (12 U.S.C. 1813(f)) and any other depository institution not referred to in this paragraph or paragraph (2) or (3) of this subsection, by the Board of Directors of the Federal Deposit Insurance Corporation;

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions; and

(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any credit union.

(c) For the purpose of the exercise by any agency referred to in subsection (b) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (b), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

§ 306. Relation to State Laws

(a) This title does not annul, alter, or affect, or exempt any State-chartered depository institution subject to the provisions of this title from complying with the laws of any State or subdivision thereof with respect to public disclosure and recordkeeping by depository institutions, except to the extent that those laws are inconsistent with any provision of this title, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any such law is inconsistent with any provision of this title if the

Board determines that such law requires the maintenance of records with greater geographic or other detail than is required under this title, or that such law otherwise provides greater disclosure than is required under this title.

(b) The Board may by regulation exempt from the requirements of this title any State-chartered depository institution within any State or subdivision thereof if it determines that, under the law of such State or subdivision, that institution is subject to requirements substantially similar to those imposed under this title, and that such law contains adequate provisions for enforcement. Notwithstanding any other provision of this subsection, compliance with the requirements imposed under this subsection shall be enforced under—

(1) Section 8 of the Federal Deposit Insurance Act in the case of national banks, by the Comptroller of the Currency; and

(2) Section 5(d) of the Home Owners' Loan Act of 1933 in the case of any institution subject to that provision, by the Federal Home Loan Bank Board.

§ 307. Research and Improved Methods

(a) (1) The Federal Home Loan Bank Board, with the assistance of the Secretary, the Director of the Bureau of the Census, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and such other persons as the Federal Home Loan Bank Board deems appropriate, shall develop, or assist in the improvement of, methods of matching addresses and census tracts to facilitate compliance by depository institutions in as economical a manner as possible with the requirements of this title.

(2) There is authorized to be appropriated such sums as may be necessary to carry out this subsection.

(3) The Federal Home Loan Bank Board is authorized to utilize, contract with, act through, or compensate any person or agency in order to carry out this subsection.

(b) The Federal Home Loan Bank Board shall recommend to the Committee on Banking, Currency and Housing of the House of Representatives and the Committee on Banking, Housing and Urban Affairs of the Senate such additional legislation as the Federal Home Loan Bank Board deems appropriate to carry out the purpose of this title.

§ 308. Study

(a) The Board, in consultation with the Secretary of Housing and Urban Development, is authorized and directed to carry out a study to determine the feasibility and usefulness of requiring depository institutions located outside standard metropolitan statistical areas, as defined by the Office of Management and Budget, to make disclosures comparable to those required by this title.

(b) A report on the study under this section shall be transmitted to the Congress not later than three years after the date of enactment of this title.

§ 309. Effective Date

This title shall take effect on the one hundred and eightieth day beginning after the date of its enactment. Any depository institution which has total assets as of its last full fiscal year of $10,000,000 or less is exempt from the provisions of this title.

"COMPILATION OF AGGREGATE DATA

"SEC. 310. (a) Beginning with data for calendar year 1980, the Federal Financial Institutions Examination Council shall compile each year, for each standard metropolitan statistical area, aggregate data by census tract for all depository institutions which are required to disclose data under section 304 or which are exempt pursuant to section 306(b). The Council shall also produce tables indicating, for each standard metropolitan statistical area, aggregate lending patterns for various categories of census tracts grouped according to location, age of housing stock, income level, and racial characteristics.

"(b) The Board shall provide staff and data processing resources to the Council to enable it to carry out the provisions of subsection (a).

"(c) The data and tables required pursuant to subsection (a) shall be made available to the public by no later than December 31 of the year following the calendar year on which the data is based.

"DISCLOSURE BY THE SECRETARY

"SEC. 311. Beginning with data for calendar year 1980, the Secretary shall make publicly available data in the Secretary's possession for each mortgagee which is not otherwise subject to the requirements of this title and which is not exempt pursuant to section 306(b), with respect to mortgage loans approved by the Secretary for insurance under title I or II of the National Housing Act. Such data to be disclosed shall consist of data comparable to the data which would be disclosed if such mortgagee were subject to the requirements of section 304. Dislosure statements containing data for each such mortgagee for a standard metropolitan statistical area shall, at a minimum, be publicly available at the central depository of data established pursuant to section 304(f) for such standard metropolitan statistical area. The Secretary shall also compile and make publicly available aggregate data for such mortgagees by census tract, and tables indicating aggregate lending patterns, in a manner comparable to the information required to be made publicly available in accordance with section 310.

"TERMINATION OF AUTHORITY

"SEC. 312. The authority granted by this title shall expire on October 1, 1985.".

(d) The Federal Financial Institutions Examination Council, in consultation with the Administrator of the Small Business Administration, shall conduct a study to assess the feasibility and usefulness of requiring depository institutions which make small business loans to compile and publicly disclose information regarding such loans. The Council shall submit a report on the results of such study, together with recommendations, to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives not later than March 1, 1981.

(e) To promote efficiency and avoid duplication to the maximum extent feasible, the Federal Financial Institutions Examination Council shall transmit a report to the Congress not later than September 30, 1982, on the feasibility and desirability of establishing a unified system for enforcing fair lending laws and regulations, implementing the Community Reinvestment Act of 1977, and satisfying the public disclosure purposes of the Home Mortgage Disclosure Act of 1975. Such report shall evaluate the status and effectiveness of data collection and analysis systems of such agencies involving fair lending and community reinvestment, and shall outline possible specific timetables for implementing such a unified system.

§ 310. Termination of Authority

The authority granted by this title shall expire

October 1, 1985

The Commonwealth of Massachusetts

Office of the Commissioner of Banks

State Office Building, Government Center

100 Cambridge Street, Boston 02202

EDWARD J. KING
GOVERNOR

GERALD T. MULLIGAN
COMMISSIONER

June 2, 1980

TO THE CHIEF EXECUTIVE OFFICER OF THE INSTITUTION ADDRESSED:

Attached please find this year's disclosure directive, dated June 1, 1980. Information relative to deposits is being collected pursuant to Chapter 167, Section 2 of the Massachusetts General Laws. The report will be treated as confidential as defined in the statute. Loan information is being requested under Chapter 167, Section 7 of the Massachusetts General Laws. This information, when filed, should be available to the public both at this office and at the bank. Banks having an exemption from Federal Regulations for collecting and making available loan data will retain that exemption by complying with this directive. Exemption from the Federal Reserve System's mandates will be sought for those banks filing for the first time.

In the interest of consistency, the data requested, its format and attendant filing procedures are virtually the same as those established in preceeding years.

In order to complete the disclosure process in a reasonable and timely manner, we request that you return the enclosed contact sheet by June 15, 1980. We will then forward detailed instructions and format specifications to the appropriate data processor. If any questions arise in the meantime, please direct them to Louellyn Lambros at (617) 727-1419.

Thank you for your cooperation.

Very truly yours,

Gerald T. Mulligan

Gerald T. Mulligan

GTM/emc

Enclosure

The Commonwealth of Massachusetts

ADMINISTRATIVE BULLETIN

OFFICE OF THE COMMISSIONER OF BANKS

Reference No. 18-2

DISCLOSURE DIRECTIVE

All banks and credit unions having main offices within the Boston or Springfield Standard Metropolitan Statistical Area as defined by the U.S. Department of Commerce and also having deposits of $20 million or over must report on their mortgage lending practices and the source of their deposits by geographic locations in form and manner set out in the attached instructions which are a part of this directive.

Data must be received at this office on or before August 30, 1980.

Date: June 1, 1980
This directive replaces directive
issued 6/1/79 - Mortgage Lending Practices
and 6/1/79 - Deposit Data

COMMUNITY REINVESTMENT COMPLIANCE AGREEMENT
BETWEEN
NEW ENGLAND MERCHANTS COMPANY, INC., NEW ENGLAND MERCHANTS NATIONAL BANK
AND
MASSACHUSETTS URBAN REINVESTMENT ADVISORY GROUP, INC.

The New England Merchants Company (NEMCO), the New England Merchants National Bank (NEMNB), and the Massachusetts Urban Reinvestment Advisory Group (MURAG) hereby agree, for consideration hereinafter set forth, to the terms and conditions of the Community Reinvestment Compliance Agreement, dated February 22, 1980, as follows:

1. Mortgage Lending and Home Improvement Loans

a. NEMNB shall concentrate 25% of its total annual mortgage and home improvement activity on owner-occupied 1-4 family structures in low and moderate income areas located within NEMNB's CRA (Community Reinvestment Act) Statement community. This figure is only a projection and not a limitation on NEMNB's commitment to those areas. NEMNB also agrees to make all reasonable efforts to make mortgage loans to low and moderate income persons who are qualified by NEMNB credit standards which are consistent with this Agreement.

b. NEMNB consistent with Paragraph 1.a. of this Agreement shall make home mortgage loans on 1-4 family owner-occupied structures at all times during the Agreement, and shall make FHA/VA insured mortgages on such structures as market conditions permit. The Bank will continue to make construction loans to developers of low and moderate income housing and commits to investigate the feasibility of financing cooperative housing projects. Additionally, the Bank shall make every effort to identify and develop a secondary market for condominium mortgage loans which would permit it to originate such mortgages to its community.

c. All applicants shall be counselled by NEMNB to the options available in home mortgage loans including FHA insured, VA insured, MHMFA, private mortgage insurance or conventionally financed.

d. Government sponsored programs such as FHA, VA, or MHMFA will not be used to target areas or neighborhoods. These programs shall be available to those potential owners who wish to use these programs after their options have been explained to them by NEMNB.

e. NEMNB shall continue to make all reasonable efforts not to pursue mortgage lending policies and practices which result in unfair discrimination against loan applicants on the basis of the geographic location or age of the property proposed as security for the mortgage loan applied for.

f. NEMNB shall provide to MURAG a copy of its written non-discriminatory underwriting and appraisal standards for mortgages and home improvement loans, consistent with this Agreement. NEMNB is guided by the following non-discriminatory standards and loan terms:

(1) All income of the applicant and the applicant's spouse, including income from overtime, part-time employment that is reasonably stable and will most likely continue, shall be included as part of the applicant's effective gross income.

(2) Labor performed by a borrower to improve real estate securing a loan, to the extent that it increases the value of the property, shall be considered as equivalent of a cash investment for the purpose of calculating loan-to-value ratios, consistent with NEMNB's appraisal standards.

(3) In cases where in the absence of applicant's credit history or where it is limited, the applicant's rental payment and satisfactory employment record shall be used in lieu of a credit history.

(4) NEMNB shall continue to make loans to applicants with a satisfactory credit record when the applicant's total payment on debt obligations and housing expenses conforms both to the maximum allowable standards accepted by the Federal Home Loan Mortgage Corporation and the other FHLMC standards.

(5) NEMNB shall continue to write mortgage loans at 90% loan-to-value with private mortgage insurance up to a maximum of 30 years, and agrees to develop the capacity to originate rehabilitation loans with private mortgage insurance up to the maximum maturity level.

(6) NEMNB shall not establish or maintain a minimum amount for a home mortgage loan.

(7) The Bank's mortgage application fee will not exceed the direct costs incurred by it in processing the application. The Bank will continue its procedures on home mortgage application fees, under which all such fees are credited to the closing costs on approved loan applications. The Bank will continue to return all of the application fee when an application is rejected.

(8) NEMNB shall not require title insurance when it also has required and received from an attorney a complete title search and certification, unless required by the investor.

(9) NEMNB agrees to pay 5 1/4% on tax escrow accounts.

(10) NEMNB shall make home improvement loans using the Title I program, at the maximum terms allowed under this program.

(11) NEMNB shall consider participation in the Federal Home Loan Mortgage Corporation home improvement loan purchase program.

2. <u>The Community Reinvestment Act Committee</u>

a. The New England Merchants National Bank's Community Reinvestment Act Committee (CRA Committee) will implement this Compliance Agreement aimed at the low and moderate income areas of the Bank's CRA defined community.

b. The CRA Committee will be responsible for the development of specialized programs that will foster the development and rehabilitation of housing in the aforementioned areas and will be responsible for the development of specialized programs in neighborhood commercial centers in the aforementioned areas. These loan programs will include an emphasis on mortgage loans and direct home improvement loans for the purpose fo rehabilitation and other improvements that will add to the value and habitability of the subject properties. This program shall also include participation in FHA/VA, HUD, MHMFA, SBA, EDA, and other local, state or federal agency programs as are available to NEMNB and the local community.

c. The CRA Committee will be chaired by the Executive Vice President-Credit Policy Officer and will report to the Chairman of the Board. The members of the Committee will include the following members:

Vice President, Officer-in-Charge (OIC), Banking Offices Department,
Vice President, OIC, Metropolitan Lending Group - Small Business Lending,
Vice President, OIC, Consumer Services Department (Compliance Officer),
Assistant Vice President, OIC, Home Mortgage Department,
Assistant Vice President, Loan Officer, Commercial Real Estate Department,
Vice President, OIC, Personnel Department,
Vice President, OIC, Communications, Market Research and Public Relations Department,
Vice President, OIC, Legal Department.

The responsibilities of the CRA Committee shall include, but shall not be limited to:

(1) Outreach to the CRA defined community, including community organizations and other appropriate organizations. The OIC, Banking Offices Department will be responsible for this activity.

(2) To communicate effectively the programs and services available at NEMNB to the citizens of the aforementioned areas to aggressively seek business from low and moderate income communities. The OIC, Communications will be responsible for this activity.

(3) To communicate the needs of the people of the aforementioned areas to the Board of Directors and other appropriate personnel, and to make them aware of those needs. The Chairman, CRA Committee will be responsible for this activity.

(4) To help in the creation of new and non-discriminatory credit standards and loan terms for the Bank. The Chairman, CRA Committee will be responsible for this activity.

(5) To provide counselling services for depositors and borrowers. The OIC, Consumer Services Department will be responsible for this activity.

(6) To administer an effective bank customer or loan applicant complaint handling system. The OIC, Consumer Services Department will be responsible for this activity.

(7) To work with the Marketing Department on ways to better provide information on NEMNB's commitment to the aforementioned areas and the programs available at NEMNB. The Chairman, CRA Committee will be responsible for this activity.

(8) To provide quarterly reports in reasonable detail to MURAG on the quantitative and qualitative progress that the Bank is making in regards to all aspects of this Agreement. The Chairman, CRA Committee will be responsible for this activity.

3. Marketing

The CRA Committee shall design a market program targeted to the moderate and lower income areas in the CRA identified community to inform those communities of the availability of aforementioned credit services. This will be accomplished through contacts from time to time by NEMNB with community-based organizations, realtors, neighborhood businessmen's associations, local newspapers, and other means identified by NEMNB. The Committee shall work closely with MURAG to establish and implement this program.

4. Small Business Loans

a. NEMNB agrees to participate in government-sponsored programs such as SBA, EDA, and other local, state or federal programs that foster the economic and commercial growth and development of low and moderate income areas in the CRA identified community.

b. The CRA Committee and MURAG from time to time will review and assess current lending practices of NEMNB to small businesses especially in the low and moderate income areas of the CRA identified community.

c. NEMNB shall disclose to MURAG from time to time the number and dollar amount of business loans by zip code tracts in all areas of its CRA identified community.

d. Market studies of neighborhood commercial centers shall be undertaken by NEMNB to ascertain the credit needs of the aforementioned areas.

e. NEMNB shall provide short term working capital loans and long term loans for small businesses in all areas of the CRA identified community.

5. Mortgage Review Board

NEMNB will apply to join the Boston Mortgage Review Board.

6. On-going Communications and Cooperation

MURAG shall advise and assist NEMNB in the continuing development and implementation of affirmative lending programs in its local community. In order to assist MURAG in carrying out this function, NEMNB shall make available such information as MURAG reasonably requests. Further, the CRA Committee as well as other personnel NEMNB designates, shall be responsible for providing MURAG with such information and assistance as is reasonably necessary for the carrying out of its responsibilities under this Agreement.

7. Community Based Organizations

a. NEMNB shall identify, with the assistance of MURAG, projects which can be brought to fruition through joint venture partnerships between NEMNB and a community-based organization.

b. NEMNB with the assistance of MURAG shall determine how they can best support community services and programs offered by community-based organizations through technical assistance.

8. Counselling

NEMNB shall create a prepurchase and outreach counselling program. This program shall offer potential borrowers information on how to budget, deal with repair, and how to locate other necessary services. In areas that are threatened by displacement, residents and long-term tenants may be counselled to consider the possibility of purchasing the home, or cooperatively, the apartment they are living in. All persons denied by NEMNB for a mortgage or direct home improvement loan will be provided counselling clarifying their individual situations.

9. Training of Staff

NEMNB shall contract with MURAG to design a training program for all branch managers and loan officers to raise their level of sensitivity and awareness on the requirements of the CRA and this Agreement.

10. Media

Both parties agree to cooperate in the coordination of media coverage of this Agreement.

11. CRA Statement Amendment

During the term of this Agreement, the Community Reinvestment

Act Statement of NEMNB shall incorporate by reference the terms of this Agreement and shall inform the public that copies of the Agreement are available at each of NEMNB's banking offices.

12. Indemnification

NEMNB agrees to indemnify MURAG for all costs and expenses (including reasonable attorney fees) incurred by MURAG in connection with any court proceeding MURAG commences to enforce the terms of this Agreement upon the ultimate finding of the court that NEMNB materially and substantially breached the terms or conditions of this Agreement.

13. Identification of Priority Areas

MURAG shall assist in identifying low and moderate income areas and those areas that are deemed to be credit deficient within the CRA designated community.

14. NEMCO Subsidiary Banks

NEMCO agrees to use all reasonable efforts to encourage its current and future subsidiary banks to adopt policies similar in scope to those contained in this Agreement as further set forth in the letter of Roderick M. MacDougall to Hugh MacCormack dated February 22, 1980 attached hereto and incorporated by reference herein.

15. Duration of Agreement

This Agreement shall continue in full force and effect until such time as it is modified, changed or amended or terminated in writing by the unanimous consent of MURAG, NEMCO, and NEMNB, provided, however, that the parties agree that on June 30, 1982 or thereafter any party may terminate this Agreement by giving six months written notice to the other parties, and provided further that the parties agree that on or before June 30, 1982 they will undertake good faith communications as to whether this Agreement should be extended and/or modified, amended or changed.

16. Covenant

This Agreement shall be incorporated into NEMCO's application to merge with Massachusetts Bay Bancorp, Inc. prior to any Massachusetts Banking Commissioner or Federal Reserve Board approval of the application. In consideration of the mutual agreements as stated herein, the incorporation of this Agreement into NEMCO's application prior to the application's approval and for NEMCO's and NEMNB's execution of and compliance with this Agreement, MURAG shall support the application of NEMCO to merge with Massachusetts Bay Bancorp, Inc.

IN WITNESS WHEREOF, the Parties have, this 22nd day of February, 1980, at Boston, Suffolk County, Massachusetts hereto

set their hands and affixed their seals, agreeing that this Agreement shall take effect as a sealed instrument.

Hugh MacCormack

Mass. Urban Reinvestment Advisory Group, Inc., by its Chairman of the Board of Directors, Hugh MacCormack

New England Merchants National Bank, by its Chairman of the Board of Directors, Roderick M. MacDougall

Mass. Urban Reinvestment Advisory Group, Inc., by its Vice Chairman & Counsel, David A. White

New England Merchants Company By its Chairman of the Board of Directors, Roderick M. MacDougall

James Carras

Mass. Urban Reinvestment Advisory Group, Inc., by its Executive Director, James Carras

CERTIFICATES

I, William A. Daggett, Secretary of New England Merchants National Bank, do hereby certify that Roderick M. MacDougall has been authorized by the Board of Directors of the New England Merchants National Bank, to sign this Agreement on their behalf.

William A. Daggett

I, William A. Daggett, Secretary of New England Merchants Company, Inc., do hereby certify that Roderick M. MacDougall has been authorized by the Board of Directors of the New England Merchants Company, Inc., to sign this Agreement on their behalf.

William A. Daggett

I, ROBERT P. FERRIS, Secretary/Clerk, Mass. Urban Reinvestment Advisory Group, Inc. do hereby certify that Hugh MacCormack has been authorized by the Board of Directors of Mass. Urban Reinvestment Advisory Group, Inc., to sign this Agreement on their behalf.

NEW ENGLAND MERCHANTS COMPANY, INC.

RODERICK M. MacDOUGALL, Chairman

February 22, 1980

Mr. Hugh MacCormack, Chairman
Massachusetts Urban Reinvestment
Advisory Group, Inc.
3710 Washington Street
Boston, Massachusetts 02130

Dear Mr. MacCormack:

I believe the policies agreed upon in the agreement between your organization and New England Merchants National Bank are appropriate for consideration by the Board of Directors of the other subsidiary banks of the New England Merchants Company. In my capacity as Chairman and Chief Executive Officer of New England Merchants Company, I will communicate directly with the management and the Board of Directors of our other subsidiary banks (including Bay State National Bank and Cape Ann Bank & Trust Company upon completion of the proposed acquisition by New England Merchants Company), advising them of the NEMNB agreement with MURAG and encouraging each of the banks to institute policies similar to those agreed upon by NEMNB.

The past record of community involvement and active support by the Board of Directors of each of the banks convinces me that they will respond positively to our requests. The size of the banks and the varying demands of their market areas may well suggest that policies and practices should not all be identical, but the spirit of the contract between MURAG and NEMNB will serve as the guide. In any event, their response to the holding company's request will be directed promptly to MURAG in writing.

Sincerely,

RMM/d

COMMUNITY REINVESTMENT ACT STATEMENT

The New England Merchants National Bank (the "Bank") publishes and makes available in all of its offices this general statement for purposes of meeting the requirements of the Community Reinvestment Act of 1977.

THE COMMUNITY WE SERVE

The local community served by the Bank is as delineated on the map shown later.

CREDIT SERVICES

The Bank offers the following credit services to qualified applicants in this community.

1. Commercial loans to businesses, large and small.
2. Installment, revolving and single payment loans to individuals.
3. Home improvement loans.
   A. F.H.A. Title I home improvement loans with maturities up to 15 years.
   B. Other home improvement loans with maturities up to 10 years.
4. Residential Mortgage Loans for one — four family owner-occupied residences.
   A. Conventional mortgage loans.
   B. Low down payment mortgage loans with private mortgage insurance.
   C. V.A. insured mortgage loans with no down payments required.
5. Commercial mortgage loans on industrial and commercial properties.

Our loan activities will be administered consistent with sound banking practices. The recent adoption of a credit restraint program by the President of the United States and regulatory authorities may prevent the Bank from offering new loans in one or more of the listed categories during the period when these restraints remain in effect.

GENERAL STATEMENT

New England Merchants National Bank is a major regional commercial bank. It provides a full range of services to businesses, large and small, governmental entities, other financial institutions and non-profit organizations as well as to individuals. It serves its customers wherever it is needed, whether in a foreign country, across this nation or here in our primary market area, New England. The many services it provides its commercial customers are essential to a functioning economy. Without a healthy and vigorous commercial banking system a community cannot prosper, instead a community will lose its commerce to economically healthier communities. With a loss of commerce, jobs will go, and the urban decay that inevitably results will not be stemmed even by as laudable a program as that of the Community Reinvestment Act.

The Bank supports the Community Reinvestment Act as its part present and future programs will demonstrate. By far its most important contribution to the community, however, flows from its broad array of commercial banking services, services that are essential to the economic health of the community and the jobs at all levels that a healthy community will support.

In addition to its full range of commercial banking services and illustrative of its commitment to CRA, following are a few of the special programs in which the Bank participates in attempting to ascertain and help meet its community's credit and other needs with particular emphasis on their impact on low and moderate income neighborhoods.

Massachusetts Urban Reinvestment Advisory Group (MURAG). On February 22, 1980, the Bank entered into an Agreement with MURAG which outlines in detail the Bank's on going efforts to comply fully with the spirit of CRA. Copies of this Agreement may be obtained at any of our banking offices.

Neighborhood Housing Services. The Bank took a leadership role in the formation of Boston Neighborhood Housing Services, Inc., which has organized and funded two NHS units in our community. The purpose of NHS is to encourage active cooperation among residents of declining neighborhoods, the city government and private lenders in order to arrest the decline and aid in the restoration of these areas. In addition to making annual financial contributions to the Operating Fund of NHS, members of our staff have served as directors and on loan committees of the two neighborhood groups.

The Boston Plan. This is a comprehensive neighborhood revitalization program, under the auspices of the City of Boston, which is designed to improve the general economic condition of certain city designated areas. The Bank has committed to lend, under its own underwriting guidelines, up to $800,000 in commercial and real estate loans in this area to applicants who have been prescreened by the City.

City of Boston Homestead Program. The Bank has agreed to extend up to a total of $695,000 in construction loans under this city program designed to reconstruct housing units in areas designated by the City. Our construction loans are made directly to non profit community organizations which are responsible for the reconstruction and subsequent sale of the units.

Economic Development and Industrial Corporation of Boston. The Bank has agreed to provide up to $10,000,000 in long-term government guaranteed financing to businesses within the City of Boston under a program sponsored by this development corporation.

V.A. Home Mortgage Program. The Bank has actively offered from time to time home mortgage loans on single family dwellings under the V.A. guarantee program. These loans require no down payment and, therefore, facilitate the purchase of homes by customers in low and moderate income areas. During 1979, the Bank made V.A. loans totalling $330,000.

Student Loans Program. The Bank has for many years been active in the federally insured Higher Education Loan Plan. Funds for this program are disbursed to students demonstrating financial need. The outstanding balance of loans made under this program at the end of 1979 totalled $6,670,000.

Municipal Bonds and Notes. In 1979, our Municipal Department assisted in the issuance of thirteen bond issues of Massachusetts municipalities totalling $42,875,000, $25,570,000 of which were for municipalities within our community. The Bank is a major purchaser of the Notes of Massachusetts cities and towns, our purchases in 1979 totalling approximately $124,000,000, $54,700,000 were of municipalities within our community.

Massachusetts Home Mortgage Finance Agency. The Bank made the single largest commitment of any Suffolk County bank toward a home mortgage program targeted for "older buildings" in "older neighborhoods". The MHMFA established the guidelines, and the Bank's loans were committed to low and moderate income households within our local community as designated on the map shown later.

West Roxbury High School/New England Merchants Partnership Program. An ongoing partnership with the high school produces financial and staff support for special programs including workshops, tutorial programs, educational travel, work study and career placement programs.

The Bank's officers and employees are active in their personal support of the volunteer movement in our community. Bank personnel policy supports this commitment by hundreds of Bank officers and employees. Much of this effort contributes substantially to the Bank's knowledge of the community, including its credit needs. The Bank is also recognized as a significant financial supporter of deserving community programs and charitable institutions.

The Bank's interest in the problems of small businesses is indicated by the fact that it currently offers a small business base lending rate which enables qualifying small businesses to borrow from the

Bank at rates below those charged to the Bank's larger customers, thereby lessening the impact of the current high interest rates on these firms.

To assure continued progress in all CRA related areas, the Bank has established an ongoing committee which reports at least annually to the Chief Executive Officer and the Board of Directors on the Bank's performance under the Community Reinvestment Act of 1977.

NEW ENGLAND MERCHANTS NATIONAL BANK

COMMUNITY REINVESTMENT ACT NOTICE

The Federal Community Reinvestment Act (CRA) requires the Comptroller of the Currency to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the Comptroller decides on certain applications submitted by us. Your involvement is encouraged.

You should know that:

You may obtain our current CRA Statement for this community in this office.

You may send signed written comments about our CRA Statement or our performance in helping to meet community credit needs to William A. Daggett, Secretary, New England Merchants National Bank, 28 State Street, Boston, Massachusetts 02109, and to the Regional Administrator of National Banks, 3 Center Plaza, Boston, Ma. 02108. Your letter, together with any responses by us, may be made public.

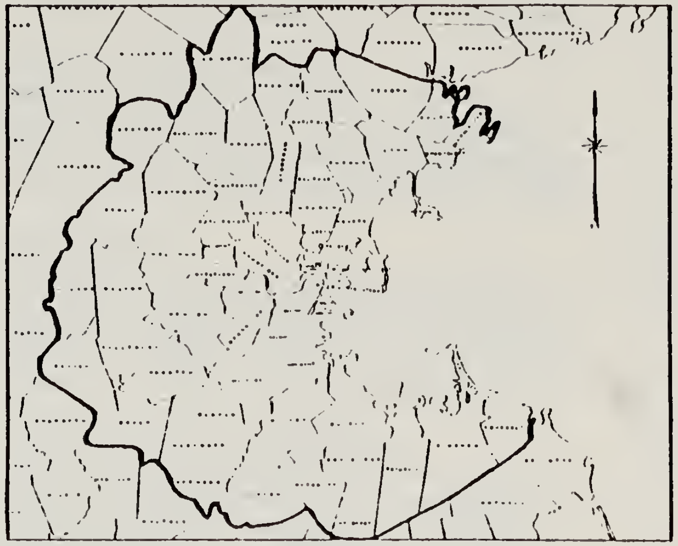
You may look at a file of all signed, written comments received by us within the past two years, any responses we have made to the comments, and all CRA Statements in effect during the past two years at our office located at 28 State Street, Boston, Massachusetts.

You may ask to look at any comments received by the Regional Administrator of National Banks.

You also may request from the Regional Administrator of National Banks an announcement of applications covered by the CRA filed with the Comptroller.

We are a subsidiary of New England Merchants Company, Inc., a bank holding company. You may request from the Federal Reserve Bank of Boston, 600 Atlantic Avenue, Boston, Ma. 02106 an announcement of applications covered by the CRA filed by bank holding companies.

NEW ENGLAND MERCHANTS NATIONAL BANK
Delineation of Community
January 18, 1979



NEW ENGLAND MERCHANTS NATIONAL BANK
28 State Street, Boston, MA 02109 (617) 742-4000
Member F.D.I.C. Founded 1831

The Community Reinvestment Act

New England Merchants National Bank
Bank of New England

Bank at rates below those charged to the Bank's [illegible]